

**THE EVALUATION OF BUSINESS RELATIONSHIPS FROM THE BUYER'S  
PERSPECTIVE: ANTECEDENTS TO THE CONSIDERATION SET FOR SUPPLIER  
REPLACEMENT IN THE SOUTH AFRICAN ADVERTISING INDUSTRY**

**by**

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**OCTOBER 2008**

I declare that **The evaluation of business relationships from the buyer's perspective: Antecedents to the consideration set for supplier replacement in the South African Advertising Industry** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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Signature  
M Jansen van Rensburg

2008/10/14  
Date

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## **SUMMARY**

# **THE EVALUATION OF BUSINESS RELATIONSHIPS FROM THE BUYER'S PERSPECTIVE: ANTECEDENTS TO THE CONSIDERATION SET FOR SUPPLIER REPLACEMENT IN THE SOUTH AFRICAN ADVERTISING INDUSTRY**

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Despite considerable research that has focused on the attributes associated with evaluating and selecting advertising agencies, and an emerging body of literature emphasizing customer loyalty and retention, advertising agency-client investigations have often analysed these attributes in isolation. This created the need for models that represent the interrelated effects that engender retention and loyalty, especially for services, whereby evaluative as well as relational factors can influence buyer responses.

Addressing this gap, this research developed and described the construct of buyer consideration sets to gain a better understanding of business relationships. This is with specific reference to advertising agency replacement considerations in the South African environment. This research contributes to the body of knowledge by providing a more complete, integrated view of customer retention and its determinants.

A heuristic model was developed with consideration of theories that originate from the transactional cost theory, social exchange theory and economic and relational contract theories. This model was empirically tested using a mixed method approach. Data obtained

from 116 respondents were subjected to factor and correlation analysis to explore the dimensionality of the retention construct. An important contribution of this study is the use of multi-item scales to measure and test retention. This research supports that retention is multidimensional and highlights the limitations of research that measure single factors related to retention.

What started as a complex set of relationships has been defensibly and systematically simplified into a parsimonious model. This model postulates that retention is the result of a good working relationship between an advertiser and agency; service satisfaction; respect and support; clear terms of engagement; and conflict resolution. This work also offers insight into the nuances of each of these antecedents and offer new reliable scales for measurement of the items.

In management practice, this model will provide advertisers with insights with regards to procurement decisions and supplier management. It can also provide valuable insight to agencies with regard to customer retention management. Findings of this study may also be extended to other high value professional service industries.

*Key terms:*

*Retention; Loyalty; Customer consideration set; Customer relationship management; Advertising industry; Procurement; Defection.*

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# **CHAPTER 1**

## **RESEARCH ORIENTATION**

## 1.1. Introduction

Customer retention is mostly seen as an outcome of loyalty and is often used as a proxy or substitute word for loyalty - one being equal to the other. The concept of loyalty has, however, disillusioned many organisations and academics. Statements such as "loyalty is dead" are used in everyday conversations or as introductions to academic papers (McGoldrick & Andre 1997). On the other hand the merits of loyalty combined with financial gains associated with this concept are widely acknowledged and subscribed to (Agustin & Singh 2005; Bennet, Härtel & McColl-Kenedy 2005; Duffy 1998; Heskett, Jones, Loveman, Sasser & Schlesinger 1994; Reichheld 1996). Loyalty is one of the marketing discipline's controversial topics with advocates defending both the merits and flaws of this concept, describing loyalty as anything from a "business imperative" to an outright "myth".

Retention is, however, not the same as loyalty (Morris & Holman, 1988). Unlike the controversy surrounding loyalty, academics and practitioners agree on the importance of customer retention e.g. Bolten, Lemon & Verhoef (2004) and Cunningham (2002). The author of this thesis believes that customer retention has not received sufficient attention due to its association with loyalty. It is now time to reconsider these concepts as, increasingly, marketing managers seek to maximise their firms' financial returns by balancing efforts to gain new customers with activities designed to retain and expand the profitable share of business among existing customers.

Retaining customers in business markets is of particular importance where the number of industrial customers is limited. Loss or gain of one customer has an exceptionally important impact. Where the Pareto principle applies a few customer accounts represent a high

concentration of revenue. If any one of these accounts were lost it seriously affects revenue. Consider, for example, the media spending of five major accounts served by Ogilvy South Africa, a South African advertising media agency. SABMiller spent R223,1 million, KFC spent R143,1 million, MultiChoice spent R95,3 million, Sun International spent R44,5 million and Eskom spent R33,7 million on main media advertisements in 2005 (Ad Focus 2006b). Ogilvy South Africa was named the top advertising agency for 2005 and has an impressive list of 57 accounts (Turkington 2006). Considering the income distribution of this agency, the loss of any of the mentioned accounts would have a significant influence on both the reputation and revenue of this company. Other agencies are even more dependent on client retention as small client numbers are indicative of this industry.

This thesis will therefore argue the importance of client retention as a strategic mandate in today's service markets. More specifically, this study will focus on the advertising industry in order to gain a better understanding of business relationships with specific reference to agency replacement considerations. Commercial reality demand long and lasting relationships that are beneficial to both agencies and their clients. Insights into the consideration set formulation of clients will thus assist all the players in this industry. Findings of this study may also be extended to other high value professional service industries e.g. corporate legal services, business consulting and accounting services. A lot of research in the business-to-business (b2b) marketing field aims to describe and interpret customer satisfaction (e.g., Bolton 1998 and Keiningham, Perkins-Munn & Evans 2003), repeat purchases, customer switching behaviour (e.g., Ganesh, Arnold & Reynolds 2000) and the antecedents and consequences of loyalty (e.g., Bennett, Härtel & McColl-Kennedy 2005). A dedicated research stream exists for customer relationship management (e.g., Berry 1995; Dabholkar,

Johnston & Cathey 1994; Lemon, White & Winer 2002; Morgan & Hunt 1994; Sheth & Parvatiyar 1995; Verhoef 2003) and many guidelines are given to allocate resources between customer acquisition and retention (e.g., Reinartz, Thomas & Kumar 2005; Thomas 2001; Venkatesan & Kumar 2004). Indeed a search in the top marketing journals shows a tenfold increase in the study of loyalty from 1995 to 2005 compared to the prior 10 years (Han, Kwortnik & Wang 2008).

Although studies link marketing actions and expenditures to customer retention and profitability (e.g., Berger, Bolton, Bowman, Briggs, Kumar, Parasuraman & Creed 2002), there is a growing interest in understanding how customers' preferences and choices vary with their experience of a particular category of product or service (Bolton, Lemon & Bramlett 2004). However, very little is known about the impact of resource allocation on how customers make their choice and decide whether or not to maintain business relations with a particular provider (e.g. Ouwersloot, Lemmink & de Ruyter 2004). In fact, advertising agency-client investigations have mostly only focused on the attributes associated with evaluating and selecting advertising agencies and in many instances these investigations have analysed these attributes in isolation. According to Han, Kwortnick and Wan (2008) studies that focus on customer loyalty and retention tend to use subsets of factors that are theoretically related but rarely examined together. This presents a challenge for marketers, as survival and success hinge on making effective judgments about how customers approach supplier selection decisions (Hunter, Bunn & Perreault 2006).

Notwithstanding the growing importance of these topics, few studies have examined the determinants of consideration sets (Wirtz & Mattila 2003). Models are needed that represent the interrelated effects that engender retention and loyalty, especially for services, whereby

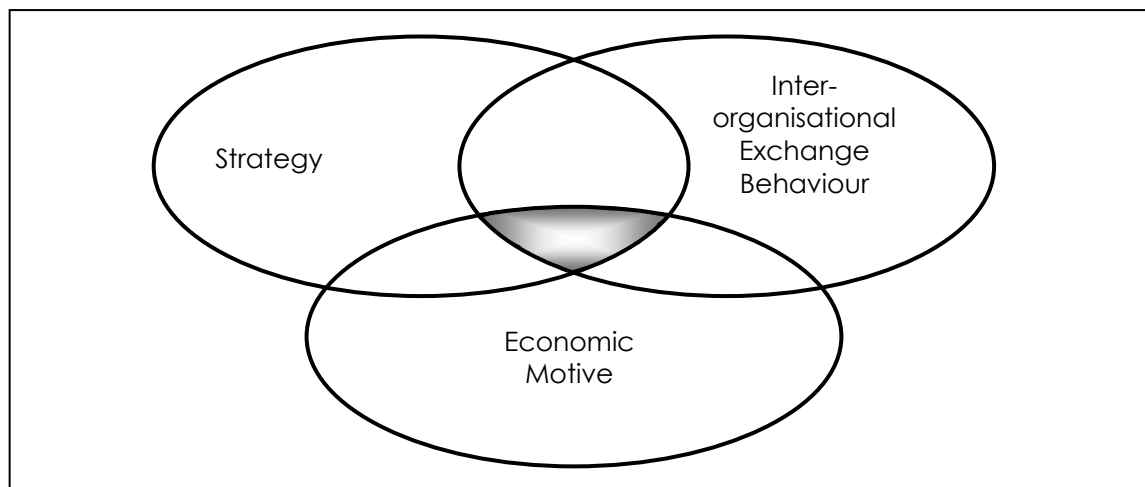
evaluative as well as relational factors can influence buyer responses (Han, Kwortnik & Wang 2008). As a result this thesis will develop an integrated conceptual model presenting a consideration set that illustrates the appropriate criteria clients consider when the advertising agency's contract is up for renewal. This model will subsequently be empirically tested to illustrate the strengths of relationships between the salient choice criteria.

**The focus of this research therefore, is to develop and describe the construct of buyer consideration sets, in order to gain a better understanding of business relationships with a specific reference to agency replacement considerations in the South African advertising industry.**

Retention, in this study, will not be taken as a proxy for customer loyalty but viewed rather as the act of continuing business and sustaining relationships with an agency (supplier). In considering theory that originates from the transactional cost theory, social exchange theory and economic and relational contract theories, this study will contribute to both marketing theory and application.

Theory to be considered in this thesis originates from the academic disciplines of strategy, inter-organisational exchange behaviour and economic motive. The outcome of this study will address a gap in the existing theory, as illustrated by the Venn diagram in figure 1.1. In addition, it will provide a conceptual model to illustrate the salient choice criteria employed by advertisers (buyers/clients) when renewing advertising agency contracts. This model will, in turn, provide a framework to marketing managers to manage retention and optimally allocate resources for maximum customer equity.

**Figure 1.1: Venn Diagram Illustrating Theory Covered**



This study will adopt a dyadic approach, considering the importance customer retention from both the buyer and seller's perspective. Data will be gathered using a mixed method approach using both qualitative and quantitative research methods as discussed later in Chapter Five.

The overall research question to be answered is: **What are the interrelationships between buyer and seller exchanges and customer retention from the viewpoint of the buyer/client in the South African Advertising industry?**

## **1.2 Background to the Research**

In order to provide background to the research a brief literature overview from the follow three fields of theory will be given; firstly theory relating to and in particular retention and defection management, secondly, constructs closely related to inter-organisational exchange behaviour (more specifically loyalty and brand categorisation to explain consumer behaviour), and lastly, resource allocation that informs consideration set formulation. In overlapping theory originally from the strategy, psychology and economic disciplines existing gaps

in the marketing literature will be addressed so that this research will provide new insights into both marketing theory as well as the application thereof. One of the issues and contributions will be the application of mainly consumer-based literature on retention, defection, evoked set theory, and resource allocation to the business-to-business context.

### **1.2.1 Marketing Strategy Literature: Importance of Retention and Defection Management in Business Markets**

Customer and firm relationships in competitive markets have their origin in a choice, driven by preference, and generally based on a perception of a differential value that the customer thinks can be obtained through the act of purchase and consumption (Costabile 2002). The establishment and maintenance of these “buyer-seller” relationships has profoundly influenced marketing theory and practice (Reinartz & Kumar 2003). This is particularly important in business markets in which, compared to consumer packaged goods contexts, vendors tend to allocate greater proportions of their sales and marketing resources at the level of individual customers. Relationships are often close and enduring and, rather than constituting the end result, a sale signals the beginning of a relationship (Hutt & Speh 2001).

According to O'Malley (1998:47) “customer retention has always been important, although traditionally it has been viewed rather simply as an outcome of successful marketing. This is embodied in the general description of marketing as “selling products and services that do not come back to customers that do!” Because retention was seen as a by-product of marketing, organisations focused on customer acquisition with the explicit aim of increasing market share. This, in turn, was assumed to increase both the organisation's power and profitability. As long as market share continued to grow, it was

accepted that marketers had got it right. However, market share, as an aggregate measure, can cover up a host of inadequacies in marketing terms (Grönroos 1994), not least of which is the fact that increases in market share disguise the level of customer defection." Retention relates to, but is different from, market share. Most measures of market share are rather blunt instruments, giving no indication of their composition (Colgate, Stewart & Kinsella 1996). As Rosenberg and Czepiel (1984:46) observe "some companies seem hooked on steady doses of fresh customers to cover up regular losses of existing ones". Important to note that these studies are based on attracting and retaining consumers in consumer markets, which by definition are more plentiful and often have lower switching costs than businesses.

Retention is seen as the decision to continue business with a supplier (an action) compared to loyalty that constitutes both cognitive and behavioural actions. In many cases however, retention is taken as a proxy for customer loyalty; and defection or switching is seen as its inverse. Retention should not be used as a substitute for loyalty. Although customer retention is seen as a prerequisite for loyalty, loyalty is not a prerequisite for retention. Companies thus need to understand the nature of their consumers' reasons for staying and must not assume that it is a positive, conscious choice (Colgate, Stewart & Kinsella 1996).

The reasons for the importance of retention are varied. Information about alternatives has become much more available (for example via the Internet), empowering consumers even more (Duffy 1998). This suggests that consumers have become much more powerful than they were before and much more willing to switch suppliers and experiment, and led to the identification of "disloyal" customers, with authors like McGoldrick and Andre (1997) even using the term "promiscuous



shoppers"! In the business-to-business context trends toward Internet purchasing and other forms of e-procurement may lead to more opportunistic buying behaviour and more concern about evoked set inclusion (Kauffman & Leszczyc 2005). The impact of the Internet in terms of online reverse auctions (Jap 2002) as well as globalisation has led to greater choices and buyer empowerment of industrial buyers.

As illustrated by the number and importance of defensive marketing strategies employed by successful organisations (Roberts, Nelson & Morrison 2001), most firms grow, however, on the basis of customers having a 'lifetime value'. Marketplace behaviour is usually more a continuing series of exchanges than a number of discrete market transactions (Page, Pitt & Berthon 1996). Indeed, according to Caceres and Paparoidamis (2007) a major shift has occurred in the ways that industrial companies deal with their customers and suppliers. This change has come about as companies have recognised that sustainable competitive advantage in the global economy increasingly requires companies to become trusted participants in various networks or sets of strategic alliances.

The consequences of customer retention compound over time, and in ways that are sometimes surprising and non-intuitive (Heskett, Jones, Loveman, Sasser & Schlesinger 1994). While a change in defection rates may have little effect on this year's profits, even a tiny change in customer retention can cascade through a business system and multiply over time, often referred to as the "ripple effect" (Gremler & Brown 1999:271). The resulting effect on long-term profit and growth can be enormous (Reichheld 1996). In the b2b context, increasing competitive pressures, rapid technological changes and shorter product lifecycles also call for more interactive, collaborative and long-lasting approaches to buyer-seller relationships (Leonidou 2004).

Consequences of a high defection rate are also clear. The scope for recouping the “sunk costs” of the initial expenses incurred in acquiring the customer is endangered. Similarly, potential for earning additional profits through more effective servicing of the customer’s developing needs is lost (Colgate, Steward & Kinsella 1996). In the case of business markets, defection management should be an important strategic consideration as business relationships are connected by their nature and it is hard to end relationships with one actor without affecting other relations (Törnroos 2004). Value is often co-created by using the multiple competencies of more than one firm, and the loss of one link will affect the whole chain. This is also the case where technological dependencies exist or where efforts are combined for research and development purposes (Törnroos 2004).

In addition, there are many buying situations where size and/or product application, and ability to forecast needs vary from transaction to transaction, and/or where market conditions exhibit considerable variation over time. Examples of such situations include custom design (i.e. service providers such as advertising agencies) and manufacturing, construction industries and commodity-type products. In such situations, due to potential and unforeseeable changes in market conditions, long-term or single-source arrangements could result in commitment to obsolete technology or inability to take advantage of price reductions. Therefore, the need to configure the choice set recurs frequently (Kauffman & Leszczyc 2005). All of the above pressures confirm the importance of customer retention for the continuous survival of organisations in business markets.

To conclude, a study done by Gupta, Lehmann and Stuart (2004) found that a 1% improvement in retention, margin, or acquisition cost improves firm value by 5%, 1% and 0.1% respectively. They also find

that a 1% improvement in retention has almost five times greater impact on a firm value than a 1% change in discount rate or cost of capital. This study was conducted using an established firm with traditional financial methods and four Internet firms with less traditional methods trading in different industries. In all cases, results showed consistent patterns, namely that improved customer retention has the largest impact on customer value, followed by improved margins, and reduced acquisition cost has the smallest impact. These results are likely to be even more pronounced in a b2b context because the individual value of customers is seen to be higher and the number of total customers is lower compared to consumer markets.

### **1.2.2 Inter-organisational Exchange Behaviour**

An understanding of factors that influence customer decision making, with reference to maintaining, suspending or ending relationships, can help organisations to more effectively allocate customer management efforts across customers and better target high potential customers. This section will address constructs that are closely related to retention to show why previously this concept has not received adequate attention.

Business-to-business and consumer markets are not entirely different and share some characteristics (Bennett, Härtel & McColl-Kennedy 2005). As most studies that address buyer behaviour are based on the end-user, the following overview in some cases may use generalisations of consumer research for the business-to-business sector. The constructs under discussion are, however, applicable to both sectors. In this instance the two sectors could be viewed as the end points of a continuum, rather than mutually exclusive categories.

### **1.2.2.1 Loyalty**

The conceptualisation of loyalty has caused much controversy among academics and practitioners. Although there is some agreement on this construct, three conceptualisations of loyalty remain popular (Uncles, Dowling & Hammond 2003) namely:

- (1) Loyalty as primarily an attitude that sometimes leads to a relationship.
- (2) Loyalty mainly expressed in terms of revealed behaviour (i.e. the pattern of past purchases).
- (3) Buying moderated by the individual's characteristics, circumstances, and/or the purchase situation.

All these conceptualisations are grounded in considerable amounts of market research data and analysis. But, despite the weight of empirical evidence, controversy persists.

Marketing literature has as a result adopted two philosophies to consumer or buyer behaviour addressing loyalty, namely the deterministic and the stochastic views. According to the deterministic philosophy, behaviours do not just happen; rather, they are a direct consequence of marketers' programs and their resulting impact on the attitudes and perceptions held by the customer (Rundle-Thiele 2005). The stochastic view on the other hand describes loyalty as a result of random forces. That is, changes in a brand's market share can only be described by chance. Researchers holding this philosophy acknowledge that marketers can cause changes in behaviour but that the bulk of the explanation lies in a multitude of variables that occur with unpredictable frequency - a practice that is stochastic (Rundle-Thiele 2005). The problem in defining loyalty lies in identifying whether loyalty is an attitudinal or behavioural measure or then if loyalty should be viewed from a deterministic or stochastic view.

It seems that neither attitudinal nor behavioural measures on its own are sufficient to explain or define loyalty. This is important for managers, as it suggests that existing measures of loyalty may be seriously flawed, and thus strategies developed on the strength of such measures may be inadequate. "The very term 'loyalty' implies commitment rather than just repetitive behaviour, which suggests that there is a need for a cognitive as well as a behavioural view" (Asseal 1992:89). Loyalty should be interpreted as true loyalty rather than repeat purchasing behaviour, which is the actual rebuying of a brand, regardless of commitment (Bloemer & Kasper 1995). Loyalty is thus not the same as repeat purchases, which implies that retention could not be used as proxy for loyalty. Loyalty should rather be defined as the non-random repurchase behaviour (behavioural loyalty), following a process of evaluation (mental loyalty) (Costabile 2002).

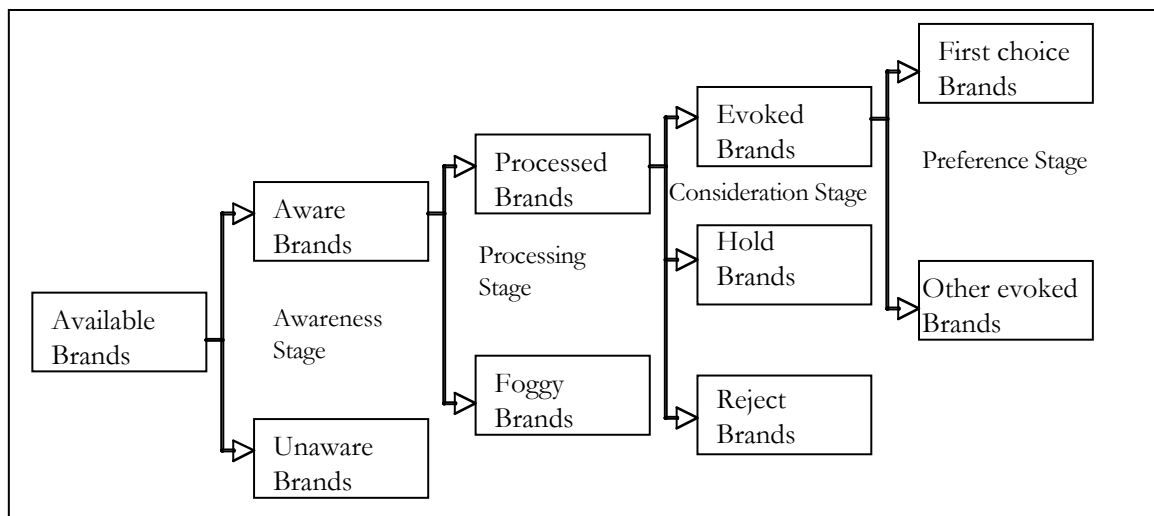
#### **1.2.2.2 Brand Categorisation: The Evoked Set Theory**

The concept of "evoked sets" was introduced in 1963 by Howard (cited in Petrof & Daghfous, 1996) and further developed in a Doctoral Dissertation by Cambell (cited in Howard & Sheth 1969) titled "The Existence and Determinants of Evoked Set in Brand Choice Behaviour". This theory is based on the buying process and explains the motivation behind a brand choice decision. The elements of this decision are seen as (1) a set of motives, (2) alternative brands, and (3) choice criteria by which the motives are matched with the alternatives relevant and sometimes specific to a product class. The brands that become alternatives to the buyer's choice decision are generally a small number, collectively called the "evoked set". The size of the evoked set is at best a fraction of the brands that the consumer is aware of and a smaller fraction still of the brands that are actually available in the market (Howard & Sheth 1969). Serving as the foundation to explain consumer behaviour in brand choice decision

making the evoked set was further conceptualised and expanded by several researchers (Brisoux & Cheron 1990; Howard & Sheth 1969; Mattila & Wirtz 2002; Narayana & Markin 1975; Turley & LeBlanc 1995; Wirtz & Mattila 2003).

By conceptualising earlier research Brisoux and Cheron (1990) have developed and tested a brand categorisation model illustrating routinised response behaviour in extensive and limited problem solving situations (figure 1.2). Figure 1.2 illustrates that the available set brands are first classified in either the awareness set or the unawareness set. This initial classification is known as the awareness stage. Brands categorised in the awareness set are then either classified as foggy or are considered for further processing. This is known as the processing stage. Processed brands are then placed in either the evoked, rejected, or "hold" position. The brands in the reject set are considered as unacceptable purchase alternatives. Brands in the hold set are also not considered as purchase alternatives but customers may have a negative, neutral or positive attitude towards them (Brisoux & Cheron 1990). The set of viable choices that remain is known as the "consideration" or "evoked" set. This is supported by Ehrenberg, Uncles and Goodhardt (2004:1310) describing customers as polygamous - "A brand's customers are mostly polygamous, rather than either monogamous or promiscuous". This reduction in the number of alternatives to a manageable level enables consumers to make a rational choice (Wirtz & Mattila 2003).

**Figure 1.2 The Brisoux and Laroche Conceptualisation**



*Source: Brisoux and Cheron (1990)*

While models of evoked or consideration and choice set formation have received considerable attention in consumer research, little research has been conducted for industrial buying situations (Kauffman & Leszczyc 2005). This may seem surprising because organisational buying centers are more likely than consumers to undertake formal and elaborate pre-purchase studies of products, markets, and potential suppliers, and therefore, incur larger and more measurable search and decision costs. Moreover, organisational buying behaviour is often considered to be more consistent with the rational utility maximisation paradigm and, because large monetary transactions are frequent, opportunity costs can be substantial (Kauffman & Leszczyc 2005).

Due to the nature of business-to-business markets it could further be expected that customers would portray high levels of objective knowledge and self-assessed knowledge about alternatives. This knowledge will enhance the development of more refined category structures and facilitate information processing (Wirtz & Mattila 2003). The categories, in the consideration stage, could thus be particularly useful to explain a buyer's intention to continue business with or defect from current business relations. These categories will be used in this

study to structure of processes (buyer-seller interactions) that lead to customer retention. Given the fewer alternatives in many b2b markets, the awareness set and the consideration set may be identical for some product categories. In others, such as the selection of an advertising agency, the model may be similar for consumers and business-to-business marketers, because of the large number of alternatives. However, there may be other factors, such as company size, where a very large company with a multi-million rand advertising budget may have only a limited number of choices in any market. Resource allocation decisions for promotion may, therefore, be more important in some product categories than in others.

#### **1.2.2.3 Resource Allocation to Optimise Customer Retention**

Marketing scientists and practitioners are increasingly interested in managing customer relationships, customer equity, or the customer asset (Bolton, Lemon & Verhoef 2004; Gupta & Lehmann 2003; Hogan Lemon & Rust 2002). This interest stems from the realisation of value associated with customers best explained by Rust, Lemon & Zeithaml (2004:3) as “products come and go, but customers remain”. Marketing managers at leading companies have thus, as a result, begun to organise their marketing efforts around customers rather than product lines. In these firms, the product-orientated concept of brand equity was gradually being supplanted by the customer-focused concept of customer equity. In the process, marketing expenditures that were once viewed as short-term expenses are now being viewed as investments in customer assets that create long-term value for the firm and its shareholders (Hogan, Lemon and Rust 2002; Best 2008). The customer-focused concept requires an in-depth understanding of the underlying sources of value derived from current customers to increase revenues and profits through targeted marketing expenditures (Bolton, Lemon & Verhoef 2004).



In the past decade, marketers have primarily focused on customer retention as a critical source of customer value as previously discussed. A positive association between retention and customer profitability has stimulated marketers' long-standing interest in the antecedents of customer loyalty and purchase intentions. Determinants of service loyalty were categorised in models QVS (quality, value, satisfaction) models; relationship-quality models; and relational-benefits models (Han, Kworntnik & Wang 2008). It has also stimulated the development of strategic models that balance an organisation's investments in customer acquisition and retention.

Blattberg and Deighton (1996) formulated, for example, a model for the allocation of resources to the separate tasks of customer acquisition and retention, going so far as to suggest that these were such dissimilar activities that they may warrant different departments within the organization and different budgets. Following this model, Berger and Nasr-Bechwati (2001) as cited in Reinartz, Thomas and Kumar (2005) assume a budget amount and then suggest a model to address how that budget should be allocated between acquisition and retention.

Blattberg, Getz and Thomas (2001) incorporated acquisition, retention, and cross buying into a model of customer lifetime value and customer equity, and Thomas (2001) examined the link between customer acquisition and customer profitability. Rust, Lemon and Zeithaml (2004) addressed both acquisition and retention aspects but their model does not provide for separate or distinct investments in the acquisitions of new customers and the retention of existing customers. Bolton, Lemon and Verhoef (2004) provided a conceptual model for linking marketing actions and expenditures to customer retention and profitability but did not provide empirical results.

Focusing only on existing customers Venkatesan and Kumar (2004) developed a resource allocation model that provides guidance on how much to invest in distinct communication channels. By estimating the frequency of buying and the change in the contribution margin from one period to the next, they compute and seek to maximize the future value of the firm's existing customer base. Lastly, Reinartz, Thomas and Kumar (2005) developed a conceptual framework and model that can be used to balance resource allocations between customer acquisition and retention to maximize a firm's long-term profitability.

Although the above studies focus in most instances on consumer markets, the same types of decisions are faced by business buyers but the costs of losing customers are mostly much higher. Marketers in the business-to-business environment intuitively appreciate the value of retaining customers yet due to the smaller number of potential buyers, customer acquisition remains a priority.

No studies could be found on the effect of resource allocation on the consumer's consideration set. There has also been little research published or prescriptions offered on how management might divide time and resources between the separate and dissimilar activities of managing defections and engaging customers in discourse (Hulbert, Pitt & Ewing 2003). This research would contribute to the understanding of the interrelationships between and influences of resource allocation and the consumer's consideration set for supplier replacement.

De Ruyter, Moorman and Lemmink (2001) developed a model that explains how customer loyalty depends on the efforts of management in various areas in the case of launching a new product in business-to-business markets. Intermediary variables in this model include

commitment, affective commitment and trust. In essence the model describes how loyalty intentions are influenced by the perceptions of the customer of the company's "offer", the perceptions of the "relationship" with the customer and the company's perceived "market position".

In a follow-up paper written by Ouwersloot, Lemmink and De Ruyter (2004) it is shown that management can influence customers' perceptions of the constructs "offer, relationship and market" and hence influence the customer's intention to stay. In this study, "offer" refers to offer characteristics and include product performance, product output and after sales service. "Relationship" refers to relationship characteristics and includes account support, communication from supplier to customer and harmonisation of conflict. Lastly, "market" refers to market characteristics and includes replaceability, switching costs and switching risks. The idea that management can influence customers' perceptions of these constructs could aid in the allocation of resources to facilitate the desired customer intentions and behaviour. The above study also provided both theoretical and empirical support to these constructs that make it useful to this proposed study.

### **1.2.3 Theoretical Conceptualisation**

This thesis will therefore consider evaluative and relational factors together to develop a model that represents the interrelated effects that engender retention in order to understand business relationships from a buyer's perspective. The literature review highlighted the need for such models as studies that focus on customer loyalty and retention tend to use subsets of factors that are theoretically related but rarely examined together. In considering theory that originates from the transactional cost theory, social exchange theory and economic and

relational contract theories, this study will provide a holistic perspective to determine the antecedents to the consideration set for supplier replacement in the South African advertising industry.

In order to develop and describe the construct of buyer consideration sets for agency replacement this thesis considered the work of Ouwersloot, Lemmink and De Ruyter (2004) as a basic foundation for this study. This conceptualisation however evolved to consider other possible theories (e.g. the social exchange theory) and constructs (e.g. Black Economic Empowerment) based on an exhaustive literature review and the initial qualitative exploratory research as discussed in the subsequent chapters (see chapters 2 to 5).

Customer consideration set will be the dependent variable in this study and resources, informing customer salient choice criteria, will be used as independent variables.

### **1.3 Research Scope**

This thesis empirically investigates the phenomena that have been held under the term retention from a holistic and integrative perspective. This investigation would base knowledge claims initially on constructive (to seek understanding) grounds. The strategy of enquiry will involve an exhaustive literature review followed by exploratory research, collecting data from advertising agencies and the clients (buyers) of services from these agencies. Initially, the data collection will be qualitative with in-depth interviews with agencies in order to gain an understanding of industry benchmarks and perspectives. Sequentially, knowledge claims will be based on pragmatic grounds, and buyer perspectives will be measured using a survey approach. The survey will

be in the form of an internet mediated survey and the results will be of a mostly quantitative nature.

Traditionally, authors have developed theory by combining observations from previous literature, common sense and experience (Eisenhardt 1989). This study will combine research from previous literature with empirical evidence to support or reject research hypothesis and to answer research questions.

The population of interest for this study is organisations that operate in the business-to-business market. As there are many organisations that could be classified as operating in business-to-business markets, the scope of this market is very large. This study will only focus on a small portion of this market, namely the service industry with specific reference to the advertising industry. This sector provides an accessible example of supplier-customer relationships, where evaluation and replacement occur relatively frequently. It is however envisaged that results may also be extended to other high value professional service industries e.g. corporate legal services, business consulting and accounting services. This study is lastly restricted to the South African operating environment. The South African advertising industry is recognised as one of the best in the world (Furlonger 2005) and conforms to international standards. This industry however, also faces unique challenges such as transformation and serving clients with very diverse markets. As a result agencies mostly strive to build close and long lasting relationships with clients and customer retention of these accounts are of particular importance.

The outcome of this study will provide marketers and academics with the items and dimensions necessary to construct a consideration set used by clients for agency replacement. This set will describe retention

from a holistic and integrative perspective and will therefore afford a new perspective in customer retention. Indeed, this consideration set can provide clients with insights with regards to procurement decisions and supplier management. It can also provide valuable insight to agencies with regard to customer retention management.

#### **1.4 Research Context**

The traditional marketing approach advocates the marketing mix principle and the quest for market share dominance through mass marketing techniques and a focus on new customer acquisition (Ahmad & Buttle 2002). Several authors have, however, drawn attention to the inadequacies of the traditional marketing approach (Grönroos 1994; Gupta & Lehmann 2003; Gupta, Lehmann & Stuart 2003; Keegan 2004; Rust, Lemon & Zeithaml 2004; Venkatesan & Kumar 2004; Verhoef 2003) and agreed on various new drivers that should guide marketing efforts. These included the evolving recognition of the importance of customer retention, market economics and customer relationship economics (Burnham, Frels & Mahajan 2003; Caceres & Paparoidamis 2007; Grönroos 1994; Han, Kworntnik & Wang 2008; Verhoef 2003).

This study probes the subject of 'customer retention' in order to understand how customers' preferences and choices vary with their experience of a particular service. The role and importance of relationships in b2b and services marketing is well recognised in the literature (Caceres & Paparoidamis 2007; Coviello, Brodie, Danaher & Johnston 2002; Dwyer & Tanner 2002; Grönroos 1994; Han, Kworntnik and Wang 2008; Heskett, Jones, Loveman, Sasser & Schlesinger 1994; Hutt & Speh 2001; Reinartz & Kumar 2003; Thomas 2001). The reason behind the importance of customer retention in business markets stems from

the fact that suppliers mostly tend to allocate greater proportions of their sales and marketing resources at the level of individual customers. Relationships are often close and enduring and achieving a sale is not the fulfilment of an effort but rather an event in a broader endeavour to build and sustain long-term relationship with the customer (Gounaris 2005).

Unlike an initial purchase decision, a firm's renewal decision is much less likely to depend on contract specifications or marketing communications from suppliers (Bolton, Lemon & Bramlett 2004; Ganesh, Arnold, & Reynolds 2000; Kalwani & Narayandas 1995). Previous research has also shown that competitive offerings are less important for a firm's repatronage decisions than initial purchases (Ganesh, Arnold & Reynolds 2000; Heide & Weiss 1995).

The focus of this research study would be on buying decision approaches applicable to 'complex modified rebuy', characterised as quite important with little uncertainty, much choice, and a strong power position. The approach in this situation is distinct in its resemblance to the normative decision making model (Bunn 1993). This study will therefore investigate professional services, more specifically services delivered by advertising agencies, which involve a wide variety of account sizes (but typically the Pareto principle applies), a long term focus, close customer-seller relationships, customisation, and interactive marketing. Despite considerable research that has focused on the attributes associated with evaluating and selecting advertising agencies (i.e. Cagley 1986; Cagley & Roberts 1984; Davis & Palihawandana 2006; Fam & Waller 1999; Michell 1987) and an emerging body of literature emphasizing customer loyalty and retention (i.e. Agustin & Singh 2005; Ang & Buttle 2006; Aspinall, Nancarrow & Stone 2001; Bell, Auh & Smalley 2003; Beverland, Farrelly &

Woodhatch 2007; Bolton, Lemon & Bramlett 2004; DeSouza 1992; Oliver 1999; Reichheld 1996; Rizal & Buttle 2001; Thomas 2001) advertising agency-client investigations have often analysed these attributes in isolation (Han, Kworntnik & Wang 2008; Palihawadana & Barnes 2005). In response this study will provide a holistic and integrative perspective to client retention.

## **1.5 Research Objectives**

Attempting to determine the antecedents of retention is a critical topic for both marketing academics and practicing marketers. There is no disputing the fact that retention literature remains highly fragmented. This thesis will synthesise the retention literature and empirically explore the theoretical structure of this concept. The objectives of this research are to:

- 1.5.1.1 Review the literature to develop concepts to establish priorities, develop operational definitions and improve the final research design.
- 1.5.1.2 Consolidate the ideas to develop a heuristic model to illustrate interrelationships between various antecedents and constructs leading to retention.
- 1.5.1.3 Identify possible correlations within the heuristic model and develop hypotheses to test these correlations.
- 1.5.1.4 Test the antecedents of retention empirically in order to present a consideration set for supplier replacement in the South African advertising industry.



## 1.6 Investigative Questions

The investigative questions to be answered in this study are:

- a) *What decision process is applied when advertising agencies are appointed?*
- b) *Who is the buying centre for advertising agency appointments?*
- c) *What supplier selection criteria are used for advertising agency appointments?*
- d) *What are the forces that shape organisational buying behaviour for advertising agencies?*

The research question to be answered in this thesis is:

*What are the interrelationships between buyer seller exchanges and customer retention from the viewpoint of the buyer/client in the South African advertising industry?*

## 1.7 Chapter Outline

This thesis is structured in eight chapters.

**Chapter one** sets the research orientation providing the background to the research. This chapter also presents the research scope, context and objectives.

**Chapter two** provides an overview of the market environment relevant to the study. This chapter defines the research scope and context to advertising services within the business-to-business service market domain.

**Chapter three** and **four** provide a literature review. The literature review revealed past research relating to: 1) customer retention, 2) inter-organisational exchange behavior, 3) the social exchange theory and 4) consideration set formulation.

In **chapter five**, the research methodology is outlined to address the research objectives.

**Chapter six** presents an overview of the qualitative research results and chapter seven presents the quantitative data analysis.

The final chapter, **chapter eight**, relates the findings of the research to the theory investigated. This chapter concludes with identifying research implications to practitioners and theory and highlighting areas of future research.

## **1.8 Conclusion**

Society's demands on business are much greater today and businesses have to be more creative than ever before. Market competition now demands that businesses continuously seek means to gain new and maintain existing customer relationships. While customer expectations are continuously increasing, businesses are now required to go beyond their primary need of satisfying the customer, to that of exceeding expectations – to delight the customer. This delight factor is in reality the business's ability to create a responsive relationship with the customer and to demonstrate their ability to serve customers well (Kandampully 1997). Effective resource allocation as well as the understanding of the relationship between these resources and customer retention will contribute to the success of organisations in competitive business arenas.

Customer retention has not received sufficient attention in the marketing literature and this study will provide more insight into this important behavioural measurement. Just as language shapes thought and communication, measures shape the attitudes and behaviour of a business organisation. The choice of what a business

measures communicates values, channels, employee thinking, and sets management priorities (Bhote 1996).

**CHAPTER 2**

**BUYING DECISION MAKING AND THE SOUTH  
AFRICAN ADVERTISING INDUSTRY**

## **2.1 Introduction**

Contemporary marketing thought appears to converge on the principle that understanding and retaining customers is critical for a firm's long-term survival, innovativeness and bottom-line results (Agustin & Singh 2005). This view is resonant in the shift of the marketing discipline away from the study of marketplace exchanges as transactions that need to be consummated to that of exchanges as relationships that need to be nurtured, preserved and cultivated. Despite this emerging consensus, the discipline remains divided by the critical factors that can help a firm maintain and enhance customer retention.

Unlike an initial purchase decision, a firm's renewal decision is much less likely to depend on contract specifications or marketing communications from suppliers (Bolton, Lemon & Bramlett 2004; Ganesh, Arnold & Reynolds 2000; Kalwani & Narayandas 1995). Previous research has also shown that competitive offerings are less important for a client's repatronage decisions than initial purchases (Ganesh, Arnold & Reynolds 2000; Heide & Weiss 1995).

This study and literature overview will therefore argue the importance of client retention as a strategic mandate in today's service markets. It will further suggest that clients differ in their value to a firm, and that client retention efforts should therefore not necessarily be targeting all clients of a firm. In this chapter the relevant research context will be identified to delimit the scope of the study to include companies operating in a specified service sector in a business-to-business market environment. This study deliberately focuses on renewal decisions and specifically service contract renewal rather than initial purchase decisions. Like the seller of the service, this study does not observe the

firm's decision-making process within the organization. It simply observes the client's choice between two primary alternatives, to renew or not to renew a contract. This study doesn't distinguish between the secondary alternatives available to the client if the service contract is not renewed. The client may switch to another supplier, rely on in-house service, or discontinue using service in this category due to changing needs. This chapter will provide rationale for this delimitation.

Chapter Three will consider consumer behaviour, the social exchange theory and inter-organisational exchange behaviour in order to identify antecedents relevant to the buyer's consideration set applicable to supplier contract renewal.

## **2.2 The Market Environment**

As with most organizational processes, the nature and practice of marketing has evolved over recent decades. The academic field has also developed considerably, to provide a fuller understanding of the complexities of marketing practices in different types of firms and market contexts (Coviello, Brodie, Danaher & Johnston 2002). This led to the emergence of a number of classic dichotomies used in marketing. Such dichotomies suggest that marketing practice is 'different' for firms with different types of customers (e.g. consumer vs. business), different market offerings (e.g. goods vs. services), different geographical scope (e.g. domestic vs. international), or different size and age characteristics (e.g. small vs. large, or newer vs. more established firms) (Coviello & Brodie 2001).

The various market environments in which firms operate present uniquely different circumstances, which should be considered in

marketing research. This research study will report on the South African advertising industry and will consider different size and age characteristics (as captured in firm demographic data) but will limit customer types and market offerings. The latter two dimensions warrant a literature overview in order to illustrate differences in these dichotomies and provide support for the selection of customers and offerings used in this study.

### **2.2.1 Consumer versus Business-to-Business Markets**

The dichotomy of consumer markets (b2c)/business-to-business (b2b) markets essentially argues that b2b markets are different from b2c markets along a number of dimensions. This section will give an overview of these dimensions and argue that customer retention is an important strategic consideration for b2b firms.

A number of theoretical works argue that b2b markets are different from consumer markets (Ames 1970; Cooke 1986; Lilien 1987; Webster 1978). By definition, business markets are firms, institutions or governments that require goods and services either for their own use, to incorporate into products or services that they produce, or for resale along with other products and services to other firms, institutions, or governments (Anderson & Narus 2004). Consumer markets, in contrast, could be defined as consumers who purchase goods and services for their own use or for gifts to others. Consumer goods could be classified as either fast moving consumer goods (FMCG) or durable goods. FMCGs are products that are sold quickly at relatively low costs compared to consumer durables that are not destroyed by use and used for several years, such as vehicles, appliances, or furniture. Consumers include both individuals and households that make purchases to satisfy their needs and wants, solve their problems, or improve their lives (Churchill & Peter 1998).

Literature supporting the dichotomy rests on the conceptual argument that b2b market characteristics and influences, buyer decision processes and buyer seller relationships differ from those found in consumer markets (Coviello & Brodie 2001) as illustrated in Table 2.1.

**Table 2.1 A Comparison of Organisational Buyers and Consumers**

Characteristic	B2B  -----		
	Pure FMCG	Consumer Durables	Industrial Goods and Services
Number of buyers in the market	Many		Few
Size of Purchase	Small		Large
Decision criteria	Rational and emotional		Primarily rational
Interdependence between buyers and sellers	Weak		Strong
Number of people involved in purchase decisions	Few		Many

*Source: Adapted from Churchill and Peter (1998)*

It is important to note that characteristics, listed in table 2.1, range amongst a continuum of possibilities as determined by product/service type. Table 2.1 considers four types of offerings i.e. pure fast moving consumer goods (FMCG), consumer durables, industrial goods and services. The organisational buyer normally deals with far fewer, much larger buyers than the consumer marketer do. Although some b2b goods and services are inexpensive and relatively low risk such as minor stationery items including pens, pencils, staples, paper (goods) and copier repair; delivery of office supplies and outsourcing custodial security or cafeteria services (services), many business-to-business goods and services have a high transaction value and are driven by an accountable purchasing process (Bennett, Härtel & McColl-Kennedy 2004).

The role and importance of relationships in b2b and services marketing is well recognised in the literature (Coviello, Brodie, Danaher & Johnston 2002; Wilson, Zeithaml, Bitner & Gremler 2008). Because of the



smaller customer base and the importance and power of the larger customers, suppliers are frequently expected to customise their offerings to individual needs (Kotler & Keller 2006) which lead to close supplier-customer relationships. The loss or gain of one customer could have an exceptionally important impact. In the case of advertising agencies small customer numbers are indicative of this industry and most agencies serve a limited number of customers. Income distribution of agencies mostly adheres to the Pareto principle as a few customer accounts represent a high concentration of revenue (Ad Focus 2006a and 2007a; Datamonitor 2005; Nielsen Media Research 2005). Consider, for example, the media spending of five major accounts served by Ogilvy South Africa, a South African advertising media agency. SABMiller spent R223,1 million, KFC spent R143,1 million, MultiChoice spent R95,3 million, Sun International spent R44,5 million and Eskom spent R33,7 million on main media advertisements in 2005 (Ad Focus 2006b). Ogilvy South Africa was named the top advertising agency for 2005 and has an impressive list of 57 accounts (Turkington 2006). Considering the income distribution of this agency, the loss of any of the mentioned accounts would have a significant influence on both the reputation and revenue of this company. Other agencies are even more dependent on customer retention as small customer numbers are indicative of this industry.

Companies selling mass consumer goods and services such as soft drinks, cosmetics and athletic shoes spend a great deal of time trying to establish a superior brand image. Much of the brand's strength depends on developing a superior product and packaging, ensuring its availability, and backing it with engaging communications and reliable service (Kotler & Keller 2006). Companies selling business goods and services, on the other hand, often face well-trained and well-informed professional buyers who are skilled in evaluating competitive offerings.

These buyers are expected to adhere to their organisations' purchasing policies, constraints, and requirements. Advertising can play a role in brand salience and communication, but a stronger role may be played by the sales force, price, and the company's reputation for reliability and quality (Kotler & Keller 2006).

In b2b markets business buying decisions are typically influenced by many people. Buying committees consisting of technical experts and even senior management are common in the purchase of major goods (Kotler & Keller 2006). In business markets compared to the consumer packaged goods contexts, vendors tend to allocate greater proportions of their sales and marketing resources at the level of individual customers. Relationships are often close and enduring and achieving a sale is not the fulfilment of an effort but rather an event in a broader endeavour to build and sustain a long-term relationship with the customer (Gounaris 2005). These vendors strive to move from transactional relationships to more collaborative relationships. Retention is thus an important strategic consideration. For these reasons this research will consider firms operating in the b2b market and not the b2c market.

### **2.2.2 Buying Decision Approaches**

A key to success in business-to-business markets is the understanding of customer buying behaviour. Such understanding is difficult to achieve however, because the organisational buying process is often dynamic and complicated (Bunn 1993). Decision-making usually involves many people with varying degrees of interaction and is driven by individual and organizational goals. In the industrial markets, buying tasks also take place in the context of a formal organisation constrained by budget, cost, and profit considerations (Lau, Goh & Lei 1999). Buyers face a complex set of issues and their behaviours are confounded by

many situational factors (Bunn 1993). Certain aspects of a firm's buying situation, such as situational characteristics, buying activities and structural arrangements may influence how consideration and switching are performed and thus impact on customer retention.

#### **2.2.2.1 Descriptions of Buying Decision Approaches**

Bunn (1993) used an empirically based taxonomy development procedure to develop a classification scheme of buying patterns and situations (table 2.2). This classification scheme is useful to illustrate the buying patterns and situations relevant to this study. The taxonomy identifies six different types of buying decision approaches i.e. causal, routine low priority, simple modified rebuy, judgemental new task, complex modified rebuy and strategic new task. According to Bunn (1993) the use of a particular buying decision approach depends on four situational characteristics, namely purchase importance, task uncertainty, extensiveness of choice, and perceived buyer power. A mix of underlying buying activities distinguishes the categories. These are search for information, use of analysis techniques, focus on proactive issues, and reliance on control mechanisms as illustrated in table 2.2.

**Table 2.2: Descriptions of Buying Decision Approaches**

Variables	Casual	Routine Low Priority	Simple Modified Rebuy	Judge-mental New Task	Complex Modified Rebuy	Strategic New Task
<b>Situational Characteristics</b>						
Purchase importance	Of minor importance	Somewhat important	Quite important	Quite important	Quite important	Extremely important
Task uncertainty	Little uncertainty	Moderate uncertainty	Little uncertainty	Great amount of uncertainty	Little uncertainty	Moderate uncertainty
Buyer power	Little or no power	Moderate power	Moderate power	Moderate power	Strong power position	Strong power position
<b>Buying Activities</b>						
Search for information	No search made	Little effort at searching	Moderate amount of search	Moderate amount of search	High level of search	High level of search
Use of analysis techniques	No analysis performed	Moderate level of analysis	Moderate level of analysis	Moderate level of analysis	Great deal of analysis	Great deal of analysis
Proactive focus	No attention to proactive issues	Superficial consideration of proactive focus	High level of proactive focus	Moderate proactive focus	High level of proactive focus	Proactive issues dominate purchase
Procedural control	Simply transmit the order	Follow standard procedures	Follow standard procedures	Little reliance on established procedures	Follow standard procedures	Little reliance on established procedures

*Source: Bunn 1993*

The focus of this research study would be buying decision approaches applicable to “complex modified rebuy” as highlighted in table 2.2. The complex modified rebuy is characterized as quite important with little uncertainty, much choice, and a strong power position. The approach in this situation is distinct in its resemblance to the normative decision making model. Buyers use all the activities in a structured and seemingly rational process. They search for a great deal of information, apply sophisticated analysis techniques, give due consideration to long term needs and supply, and closely follow established control mechanisms (Bunn 1993). For a discussion of the other buying decision approaches see Bunn (1993). Situational characteristics and buying activities, however, warrant further discussion.

#### **a. Situational characteristics**

A greater understanding of the categories of buying decision approaches can be achieved by considering the characteristics of the

situations in which the mixes of buying activities took place (Bunn 1993). Based on an extensive literature review Bunn (1993) have identified four relevant situational characteristics namely, (1) purchase importance, (2) task uncertainty, (3) extensiveness of choice set, and (4) perceived buyer power. These characteristics can also determine the level of dependency as illustrated in Chapter Three.

Purchase importance has been defined conceptually in terms of the "impact of a purchase on organizational operation, profitability and productivity" (Lau, Goh & Lei 1999: 578). Empirical evidence indicate that the importance of the purchase may influence many aspects of the decision process, such as the size and structure of the choice centre (Johnson & Bonoma 1981; Moriarty & Bateson 1982; Lau, Goh & Lei 1999) as well the perceived influence of the decision participants (Lau, Goh & Lei 1999; McQuiston 1989). The greater the importance of the purchase, the more technical the analyses of the offering and suppliers available, and the greater the involvement of specialized personnel from various departments and divisions required in the purchase decision (Lau, Goh & Lei 1999). Bunn (1993:41) defines this concept as "the buyer's perception of the significance of the buying decision in terms of the size of the purchase and/or the potential impact of the purchase on the functioning of the firm." This is an important consideration with the appointment of an advertising agency and will be considered in the research design.

Uncertainties surrounding tasks of organizational decision making have long been recognized as determinants of variations in the decision process (Galbraith 1977; Lau, Goh & Lei 1999; McQuiston 1989; Spekman & Stern 1979; Thompson & Tuden 1959). In fact, today industrial purchasers are encountering greater uncertainty as a result of a rapidly evolving purchasing environment where change is

considered the only constant. This uncertainty can be thought of as the likelihood that the purchase of the product will lead to undesirable consequences (Lau, Goh & Lei 1999). Task uncertainty can be defined as “the buyer’s perceived lack of information relevant to a decision situation” (Bunn 1993:42). In this research setting, existing or prior relationships will be investigated which implies a degree of knowledge. New decision makers, markets and/or technology may, however, increase uncertainty and should be taken into account.

The scope of choices facing a decision maker will also influence the decision process (Bunn 1993) as discussed in more detail in Chapter Three. The extensiveness of choice set is defined as “the number of alternatives that are potentially able to meet the purchasing need” (Hunter, Bunn & Perreault Jr. 2006:158)

In addition to available choices, research on channel relations can also be useful when thinking about buyer-seller relationships. Buyer-seller relationships in many industries suffer from severe dependencies between business operations. These dependencies could lead to the necessity of cooperation and coordination between companies’ business operations in order to achieve internal, and in some cases, mutual goals (Svensson 2004), thus influencing the buying decision process. Buying power can be defined as “the profitability and attractiveness of a sale to the buying firm by one or more suppliers and the suppliers’ desire for the customer’s business” (Hunter, Bunn & Perreault Jr. 2006:158).

As the above situational characteristics can influence the buying decision process, it should be considered pertinent to this research.

## **b. Buying activities**

Bunn (1993) identified four underlying dimensions of buying activities, namely: (1) search for information, (2) use of analysis techniques, (3) proactive focusing, and (4) procedural control.

Search for information refers to the assembling and sorting through information that is central to management activity and is particularly relevant to buying decisions. It can thus be defined as “the buyer’s effort at scanning the internal and external business environment to identify and monitor information sources relevant to the focal buying decision” (Hunter, Bunn & Perreault Jr. 2006:157).

Numerous analysis tools are useful for evaluating different aspects of buying decisions (Chan 2003; Tseng & Lin 2005; Vokurka, Choobineh & Vadi 1996). Conceptually, buyers use analysis techniques to bring structure to the mass of information available to try and address rationally the issues surrounding the procurement. Bunn (1993:42) defines this underlying activity as “the extent to which the buyer makes use of formal and/or quantitative tools to objectively evaluate aspects of the buying decision”.

Proactive focusing is relevant to aspects of the decision process such as forecasting, contingency planning, and maintaining good relationships. Bunn (1993:43) defines this concept as “the extent to which decision making, related to the focal purchase, is prospective and thus considers the strategic objectives and long-range needs of the firm”. This activity will be considered as part of the exchange relationship discussed in Chapter Three.

The use of established procedures varies across different buying situations. For routine purchases buyers may either apply company

control mechanisms or rule of thumb, based on past practice. The decision precedent may thus be formal or informal (Bunn 1993). Procedural control is defined as "the extent to which the evaluation of a buying decision is guided by previous experience – including established policies, procedures, or transaction norms" (Hunter, Bunn & Perreault Jr. 2006:157).

These four constructs seem to capture much of what buyers actually do when making purchase decisions and should thus inform the research design.

### **c. Structural arrangements**

A number of specific individuals or departments might be involved in purchasing decisions, and a number of individuals can be expected to play a role. Trying to sort out the various people involved in the buying decisions can become a great challenge (Morris, Pitt & Honeycutt 2001). When a single person makes a purchase decision for an organisation, the decision is said to be autonomous. When more than one person is involved, the group of participants in the company is called the buying centre or decision-making unit (Dwyer & Tanner 2001). Buying centre structures do differ from firm to firm as well as from one product/service to another. Furthermore, within the same firm, different buying centres may also have varying internal structures (Lau, Goh & Lei 1999).

Centralisation and formalization of the buying process refer to the nature of the buying process used (Heide & Weiss 1995). Formulation is the extent to which purchasing tasks are formally prescribed by rules, policies, and procedures to be adhered to (Lau, Goh & Lei 1999). With regard to centralization, it is the distribution of formal control and power within an organization (Lau, Goh & Lei 1999). A high degree of



centralization is usually typified by a concentration of power and control among relatively few organizational members, probably at upper management levels. Conversely, a low degree of centralization is characterized by a diverse distribution of power (Lau, Goh & Lei 1999).

A firm's structural arrangements may influence the manner in which information is processed. Specifically, the extent to which the relevant buying tasks are formalized and centralized. The degree of process centralization may also influence consideration and switching behaviour. Buying roles and functions of different members of the buying centre should thus be examined to understand who participates in the industrial purchase decision and the factors that affect the interpersonal influence between the participants during the decision.

### **2.2.3 Products versus Services**

Firms operating in business-to-business markets may buy products and/or services for their own use, to incorporate into products or services that they produce, or for resale along with other products and services to other firms, institutions, or governments (Anderson & Narus 2004). It is important to distinguish between different types of goods and services in order to establish the degree of importance of customer retention.

The globalization of business and the evolving recognition of the importance of customer retention and market economics, among other trends, reinforced a paradigm shift in marketing from a traditional marketing mix paradigm to a relationship building and management (relationship marketing) paradigm (Grönroos 1994). The role of relationship marketing and importance of customer retention, in both

services marketing and industrial marketing, are widely acknowledged in literature (Best 2008; Dwyer & Tanner 2002; Grönroos 1994; Heskett, Jones, Loveman, Sasser & Schlesinger 1994; Hutt & Speh 2001; Reinartz & Kumar 2003; Thomas 2001; Wilson, Zeithaml, Bitner & Gremler 2008).

Table 2.3 suggests that in a transactional paradigm profit and market share come first (in other words, a focus on short-term performance) while a relationship paradigm focuses on the quality of the relationship (in other words a long-term focus). This table furthermore indicates that the dominant marketing function in a transactional paradigm is guided by the marketing mix approach; the market share provides an indication of customer satisfaction; and that internal marketing is of no or limited importance to company success. On the other hand the relationship paradigm is characterised by interactive marketing; a real time customer feedback system; and internal marketing is of substantial strategic importance to success.

**Table 2.3: The Marketing Strategy Continuum**

The strategy continuum	Transaction marketing ← Relationship marketing →	
	Short-term focus	Long-term focus
Time perspective	Short-term focus	Long-term focus
Dominating marketing function	Marketing Mix	Interactive marketing (supported by marketing mix activities)
Price elasticity	Customers tend to be more sensitive to price	Customers tend to be less sensitive to price
Dominating quality dimension	Quality of output (technical quality dimension) is dominating	Quality of interactions (functional quality dimension) grows in importance and may become dominating
Measurement of customer satisfaction	Monitoring market share (indirect approach)	Managing the customer base (direct approach)
Customer information system	Ad hoc customer satisfaction surveys	Real-time customer feedback system
Interdependency between marketing, operations & personnel	Interface of no or limited strategic importance	Interface of substantial strategic importance
The role of internal marketing	Internal marketing of no or limited importance to success	Internal marketing of substantial strategic importance to success
The product continuum	Consumer ← Consumer → Industrial → Services Packaged Goods Durables Goods	

Source: Grönroos (1994)

As illustrated in table 2.3 relationship marketing and customer retention are relevant to both industrial goods and services. Because product lines of industrial firms differ from those of consumer firms, further classification can be useful. Industrial product lines can be categorized into four types (Hutt & Speh 2001):

1. *Proprietary or catalogue products.* These items are offered only in certain configurations and produced in anticipation of orders.
2. *Custom-built products.* These items are offered as a set of basic units, with numerous accessories and options.
3. *Custom-designed products.* These items are created to meet the needs of one customer or a small group of customers.

4. *Industrial services.* Rather than an actual product, the buyer is purchasing a company's capability in an area such as maintenance, technical service, or management consulting.

Whilst many products and services consumed in the industrial market could be classified as proprietary or catalogue products, and would thus more closely follow the consumer product marketing literature, this study is interested in industrial services that may be required to follow a more relationship paradigm approach.

Industrial services can be distinguished from products in a number of significant ways. Included here are the facts that services (a) are intangible, (b) cannot be held in inventory, (c) are often consumed at the time of purchase, (d) frequently do not lend themselves to production economies, (e) more frequently must be customised to individual users, (f) tend to be consumed in irregular patterns, and (g) have a tendency to generate less customer loyalty (Morris, Pitt & Honeycutt 2001; Wilson, Zeithaml, Bitner & Gremler 2008). When there is a close interaction between a service employee and a customer, the manner in which the service is performed is often more important than what is actually delivered (Ozment & Morash 1994). The service employee's performance is critical for the success/failure of the service exchange (Puay, Tang & Jackson 1999) and the employee's behaviour and attitudes can influence a customer's perception of quality for that service offering (Bradly & Cronin 2001).

Creating long-term relationships with customers is the key to the survival and growth of service operations (Duffy 1998). This study will investigate professional services, more specifically services delivered by advertising agencies, which involve a wide variety of account sizes (but typically

the Pareto principle applies), a long term focus, close customer-seller relationships, customisation, and interactive marketing. These characteristics, among others, will be discussed in the next section.

#### **2.2.4 Advertising Industry Profile**

This study will focus on the advertising industry in order to gain a better understanding of business relationships with specific reference to supplier replacement considerations. The advertising industry is most suitable as the size of contracts is mostly substantial with high transactional value and the appointment of agencies is often based on accountable purchasing processes. Relationships between agencies and clients tend to have a long term focus. Offerings are customized and require interactive marketing and customer retention is seen a critical success factor. Data on the client and agency relationships are further freely available i.e. client account details (value of advertising spend, terms of contracts, and agency replacement) as well as details of campaigns. The appointment and replacement of agencies are often discussed and the cause of speculation in the media. Agency reputation is also built on the profiles and successes of customers.

The discussion to follow will give an overview of the global advertising industry. This will be followed by a more specific review of the South African advertising industry. The South African advertising industry discussion will consider advertisers and agencies.

##### **2.2.4.1 The Global Advertising Industry**

High spending on advertising is a phenomenon more typical of developed economies, where markets in general tend to grow at low rates if at all. In this regard the global market is dominated by the United States (US) with Latin America and the Asia Pacific regions

emerging as the largest growth markets in terms of advertising spend (Datamonitor 2005).

Table 2.4 illustrates advertising expenditure by region and includes all major media (newspapers, magazines, television, radio, cinema, outdoor, internet). The world advertising expenditure generated total revenues of US\$485,580 million in 2007 and are predicted to grow to US\$548,671 million in 2008 (ZenithOptimedia 2008).

**Table 2.4 Global Advertising Expenditure by Region**

	2006*	2007*	2008*	2009*	2010*
North America	183,520	188,415	194,990	200,271	207,570
Western Europe	113,513	119,976	124,420	129,770	135,781
Asia Pacific	94,719	102,807	111,534	119,001	127,916
Central & Eastern Europe	25,799	31,563	37,041	42,628	48,424
Latin America	22,638	26,329	30,924	35,130	25,938
Africa/M.East/ROW	13,406	16,490	18,606	21,871	25,938
<b>World</b>	<b>453,595</b>	<b>485,580</b>	<b>517,515</b>	<b>548,671</b>	<b>584,550</b>

*Source: ZenithOptimedia (2008)*

\* Major media (newspapers, magazines, television, radio, cinema, outdoor, internet)

\* US\$ million, current prices – currency conversion at 2007 average rates

Zenith Optimedia (2008) forecast world advertising growth of 6.6% in 2008. Developing markets contribute 62% of advertising expenditure growth between 2007 and 2010, and increased their share of the global advertising market from 27% to 33%. Table 2.5 demonstrates the contribution of developing markets to the growth in global advertising expenditure. Note the growth displayed by the South African market of 47.7%.

**Table 2.5 Top Ten Contributors to Global Advertising Expenditure Growth between 2007 and 2010**

<i>Country</i>	<i>Growth (US\$ million)</i>	<i>Growth (%)</i>
USA	17,720	9.9
China	10,194	63.5
Russia	8,248	92.1
Brazil	7,723	79.6
UK	5,808	22.8
India	3,465	52.2
Japan	2,318	5.7
South Korea	2,153	21.6
South Africa	2,070	47.7
Philippines	2,035	56.6

*Source: ZenithOptimedia (2008)*

Faced with an uncertain economic future, first world advertisers are shifting their budgets towards online media. It is expected that internet advertising will grow with 26.7% and break through the 10% share barrier in 2008. By 2010 it is predicted that this medium will attract 13.6% of all advertising. As demonstrated in Table 2.6 newspapers, magazines, television and radio are all losing share to the Internet, but newspapers are clearly suffering the most. Outdoor is the only other medium to be gaining market share.

**Table 2.6 Share of Total Global Advertising Spend by Medium 2006 – 2010 (%)**

	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
Newspapers	28.4	27.2	25.9	24.7	23.7
Magazines	12.5	12.1	11.6	11.4	11.0
Television	37.3	37.3	37.6	37.4	37.1
Radio	8.2	8.0	7.8	7.6	7.4
Cinema	0.4	0.5	0.5	0.5	0.5
Outdoor	6.2	6.2	6.4	6.6	6.7
Internet	6.8	8.6	10.2	11.0	13.6

*Source: ZenithOptimedia (2008)*

#### **2.2.4.2 The South African Advertising Industry**

According to Mouyeme, Association for Communication & Advertising (ACA) Chair, (as cited in Furlonger 2005) the South African advertising industry is pound for pound one of the best in the world. "Its position, in a developing country on the southern tip of Africa, far away from major advertising markets, should work against it. But its work continues to collect international awards and its leaders are routinely cherry-picked by top agencies around the globe" (Mouyeme cited in Furlonger 2005).

Most South African agencies are members of the ACA. This association represents 93 companies active in advertising and its associated industries. These companies employ over 3 000 professionals and account for almost 100% of the creative and effectiveness awards issued in the industry. The ACA is active in every facet of the industry, from setting the standards pertaining to business ethics to liaison with other allied associations and with government (ACASA 2006).

The industry is regulated by the Advertising Standards Authority of South Africa (ASA), which is an independent body set up and paid for by the marketing communications industry to regulate advertising in the public interest through a system of self-regulation. The ASA works closely with government, statutory bodies, consumer organisations and the industry to ensure that the content of advertising meets the requirements of the Code of Advertising Practice (ASASA 2006).

In general the advertising industry has evolved significantly during the past democratic decade. Industry transformation or black empowerment targets are set at 30% by 2007 and 45% by 2012. Many agencies are already on or about the 30% mark so the short-term target is not seen as a problem. The second part of the transformation equation - staffing agencies with black talent - has been more



problematic (Furlonger 2005). Recent numbers on the level of black ownership are not available but, according to a 2006 survey by the Association for Communication & Advertising (ACA), the black shareholding in the industry was 37,6%, while black managers accounted for 40,2% of total management. Furthermore 76% of ACA member firms, which make up about two-thirds of the industry, had a minimum black shareholding of 26%. Though these numbers don't seem too bad, little progress has been made since and that has been largely confined to the larger agencies, those with 60-plus staff (Motloun 2008a).

#### **a. Advertising spend in South Africa**

Analysing the annual adspend figures in South Africa, it could be concluded that above-the-line (ATL) media expenditure is in the mature phase of the advertising industry life cycle (Muller 2005). Compared to an annual global advertising growth of 6.6% (2008) the South African growth of 23.4% year-on-year (from R11.6bn in 2003 to R14.3bn in 2004) compares favourably (Muller 2005). If this is related to media-rate inflation of about 8% over the same period, then the industry has experienced real growth in advertising spend (Muller 2005).

Overall advertising spend for 2006 has also shown significant and encouraging growth, but the distribution of funds by media genre has stayed relatively unchanged. A close to 20% growth in advertising spend was experienced in 2005 as a result of historic high gross domestic product growth levels and historic lows in interest rates (Davey 2006). This was further supported by an increased demand for goods and services from the "burgeoning" black middle class and homeowners cashing in on rising property prices (Davey 2006). Table 2.7 gives an overview of spending per advertising medium. In line with

global trends, print media and television are earning the greatest revenue.

**Table 2.7 Advertising Spend in South Africa by Medium – Excluding Self Promotion**

	2004		2005		Rate inflation %	2006		Rate inflation %
	Rm	Share %	Rm	Share %		Rm	Share %	
Print	5 741,5	40.0	6 801,1	39.7	7.2	8018,8	39.9	6.9
TV	5 555,2	38.7	6 331,1	36.9	9.7	7702,6	38.3	7.8
Radio	1 930,5	13.5	2 362,2	13.8	9.7	2645,6	13.2	9.0
Outdoor	623,6	4.3	788,2	4.6	2.7	1023,3	5.1	9.8
Cinema	253,7	1.8	591,2	3.4	8.6	393,3	2.0	137.3
Internet	116,0	0.8	140,7	0.8	n/a	174,1	0.9	n/a
Direct mail	122,5	0.9	121,5	0.7	n/a	136,3	0.7	n/a
<b>TOTAL</b>	14 343,0	100.0	17 139,0	100.0	8.6	20 093,9	100.0	9.1

*Source: Ad Focus (2006a; 2007a)*

Annexure 1 provides the advertising spend of the top 100 advertisers in South Africa. These numbers confirm the importance of retaining these customers as the loss of any of these accounts would have a significant influence on both the reputation and revenue of this company. It is further interesting to note that these 100 advertisers are responsible for approximately 56% of the total adspend in South Africa.

#### **b. South African advertising agencies**

This study considers advertising agencies which offer a full service or specialist service, including below-the-line activity, media planning and buying. These agencies could further be classified into large, medium and small agencies based on annual income. Advertising agencies with a fee and commission income of more than R60m are deemed large; between R20m and R60m are classified as midsize and agencies with an income of less than R20m are small (Ad Focus 2004).

Annexure 2 provides the abbreviated profiles of 53 advertising agencies that were short listed as suitable submissions for the

advertising agency of the year award annually presented by the Financial Mail's Ad Focus. The main criteria used for the short listing process included business growth over the last 12 months; creative success; progress made on empowerment; and corporate social investment (Maggs 2006a). Awards are presented in categories catering for large, medium, small and "new broom" agency contenders. Data presented in Annexure 2 includes the advertising agencies' income, the number of new and lost accounts for 2005, the number of staff, equity ownership, years in the industry as well as the biggest client served by the agency. In essence, Annexure 2 provides an overview of small, medium and large agencies and gives an insight into the operations of new as well as established agencies. It is, however, important to consider that more than 150 entries are received yearly for these awards and that the profiles presented are seen as complying with an expected standard. Agencies not making the shortlist will thus present a more negative profile. Data used to construct this table was sourced from individual agency profiles published in Ad Focus (2006c) as well as agency websites.

Considering the data presented in annexure 2, the following observations were made: Firstly the smaller agencies have higher black equity ownership than the larger agencies (i.e. the average equity percentage for the 22 small agencies are calculated at 41.05% compared to the 38.65% in the 19 medium agencies and the average equity ownership of 26% in the 11 larger agencies). Secondly, the average ratios for new accounts compared to lost accounts are 8.6:1.3 for large agencies, 6.3:1.1 for medium agencies and 4.86:0.95 for small agencies. Lastly, as could be expected, it was observed that the larger agencies have been operational for a longer period of time compared to the smaller agencies. This is in line with capital and reputation required to expand client bases.

As seen in table 2.8, South Africa's top 20 advertising agencies collectively participated in 156 pitches for new business in 2005 and had a success rate of just below 75%. This high success rate could indicate that agency executives have been choosier about the pitches they enter. Considering the high financial and opportunity costs and the fact that many top advertising agencies are already operating at maximum capacity, pitching for accounts that may not be won is not worth the time and effort associated with the process (Maggs 2006b).

In the brand design industry, agencies are refusing to provide creative product unless there is remuneration involved. It is said that advertising agencies may follow this stance as many advertising agencies are becoming increasingly frustrated at having to produce creative work on specification, only to see it used by a client using a different agency once the pitch is won and lost. This notion is also supported by the Association for Communication & Advertising (ACA) who recommends that remuneration should ultimately be made for pitches (Maggs 2006b).

**Table 2.8 Pitch Performance by Top 20 South African Advertising Agencies - 2005**

<i>Agencies</i>	<i>Pitches entered</i>	<i>Pitches won</i>	<i>Pitches lost</i>	<i>Accounts resigned</i>	<i>Strike rate</i>
AdMakers	5	5	0	0	100%
FCB SA (Cape Town)	1	1	0	0	100%
DDB SA	13	12	1	0	92%
Net#work BBDO	6	5	1	0	83%
Ogilvy Johannesburg	23	19	4	0	82%
TBWA\Hunt\Lascaris JHB	11	9	2	1	81%
FCB SA (Johannesburg)	5	4	1	0	80%
Grey Worldwide SA	10	8	1	1	80%
TBWA\Hunt\Lascaris Durban	4	3	1	0	75%
BBDO Cape Town	7	5	2	0	71%
Ogilvy Cape Town	7	5	2	0	71%
The Hardy Boys	10	7	3	2	70%
The Jupiter Drawing Room (Jhb)	10	7	2	1	70%
JWT Group Johannesburg	6	4	2	3	66%
HerdBuoys McCann-Erickson	8	5	1	1	62%
Lowe Bull (Gauteng)	12	6	6	1	50%
Saatchi & Saatchi SA	7	3	4	0	42%
Lobedu Leo Burnett	3	1	2	0	33%
Young & Rubicam Brands (Jhb)	4	1	1	0	25%
Young & Rubicam Hedley Byrne	0	0	0	0	0%

*Source: Maggs (2006b)*

**c. Best practice guidelines for the procurement of marketing, advertising and PR services / products**

According to the “best practice guidelines for the procurement of marketing, advertising and PR services / products” document developed by the Association for Communication and Advertising (ACA) and member agencies in collaboration with the Government Communication and Information Service and National Treasury, the appointment of advertising agencies should adhere to a specified code of conduct. This code of conduct provides a standard set of guidelines to ensure a fair process to be implemented when pitching for new business and is endorsed by all members (Government Communication, National Treasury and The Association for Communication and Advertising 2008).

The guidelines require a two-stage bidding process to be instituted, namely:

- Stage One: Requests for proposals, including the provision of the actual brief and the request for proposals/communication are sought from interested parties. This phase includes a pre-screening and short-listing process. The brief would require bidders to submit the following information:
  - Credentials (comprehensive company profile, ownership structure of the company, BEE profile, etc.)
  - Account track record/expertise
  - Infrastructure / capacity (location, operational strategy and methodology, resources, consultation, account planning and reporting capabilities)
  - Profile and staff complement at senior, middle and lower level
  - Transfer of skills to clients
  - Empowerment of SMMEs throughout the supply chain
  - Industry affiliations and proof of financial stability/liquidity

During this phase, bidders are shortlisted based on an evaluation of their strategy, proposals, modus operandi and credentials. It is recommended that a maximum of five companies be shortlisted.

- Stage Two: A more concise formal brief may have to be developed / refined for the second phase. This stage will culminate in a formal presentation of the communication strategy (and in exceptional cases a creative proposal) to an evaluation panel. During this stage bidders are evaluated in relation to functionality (strategy presentation / creative presentation) and price.

Members of the ACA are expected to abide by the code of conduct and adherence is expected to be motivated by peer pressure and democratic sanctions by members. As set guidelines therefore exist for

the procurement process the scope of the research was limited to understand internal company compliance thereto. This research provides insight into the evaluation criteria and appointment processes applied during the appointment of agencies considered in phase two. The choice set will therefore consist of a maximum of five agencies that were short-listed based on company specific needs and criteria. Conclusions will consider the buying decision approach employed, the composition of the buying center, and finally the selection criteria used.

The best practice guidelines are attached as Annexure 5.

**d. Perceptions about the South African Advertising Industry**

Results from a survey of more than 50 leading marketing executives have given the South African advertising industry a vote of confidence (Maggs 2004). According to Maggs (2004) a significant majority of executives said that agencies either have a good or very good understanding of their clients' business. The results of the survey prove that despite the difficulties the industry face, the sector is respected. The industry also seems to be on an upward trajectory, as 75% of the respondents said that their marketing budgets will increase over the next five years. The results further indicated that it is a growing trend for agencies to offer a full service, including below-the-line activity, media planning and buying. Three-quarters of the respondents indicated that the pitch is critical in choosing an agency, and more important than the track record and reputation. Lastly, more than 70% of those surveyed have greater confidence in the local advertising industry than the international sector in terms of ability to deliver relevant advertising. Other survey items deemed important are indicated in table 2.9.

**Table 2.9 South African Advertising Industry Perception Survey**

<i>Survey Item</i>	<i>Extremely Important</i>	<i>Agency very good on delivery</i>
Operational capability -	66%	19%
Presentation of products with creativity		
Do agencies understand how to reach the target audience cost-effectively?	57%	13%
Creative design	26%	21%
Strategic ability	40%	26%
Human resources –		
Maturity to say no if a request cannot be met	30%	11%
Resolving differences of opinion	34%	11%
Attention to detail	55%	13%
<b>Pitch process</b>	75%	65%

*Source: Maggs (2004)*

Table 2.7 indicates a discrepancy between industry expectations and the perception of agency performance. These survey items will be considered in the development of the measurement instrument of this research study. Despite the vote of confidence in the advertising industry, many challenges remain.

#### **e. Challenges faced by the South African Advertising Industry**

“It's extraordinary that an industry that exists to polish the image of others should have so much difficulty burnishing its own. Not everyone likes the analogy but advertising is a smoke-and-mirrors business. At its best, it can persuade a target audience that mediocre is good, that good is outstanding, and that molehills can indeed be mountains” (Furlonger 2005).

But if it's so good at transmitting positive messages on behalf of others, why can't the industry look after its own interests as successfully? In the past couple of years there have been a slew of wounding headlines, many self-inflicted. Public infighting between senior figures has often created the impression of an industry at war with itself. A good example of this was the resignations of a number of board members of the Association for Communication & Advertising (ACA), which



represents advertising agencies. The resignations of Ogilvy chair Nunu Ntshingila, colleague John Little and Young & Rubicam (Y&R) boss Yossi Schwartz followed an argument over the apparently premature disclosure of details of ACA restructuring, and the future of the industry (Furlonger 2005).

The outcome of an industry survey (Maggs 2006c) perhaps best summarises the various challenges that the industry needs to address. In this survey the perceptions of 50 of the industry's top operatives were measured to portray the thoughts of senior agency executives. Results indicated that 66% of the respondents agreed that the advertising industry is facing a crisis of relevance and needs to aggressively market itself to the public; 74% of the respondents indicated that the advertising industry has not resolved its transformation difficulties; 58% of the respondents believe that advertising agencies have not come to grips with the unique challenges of reaching a multicultural SA market. The state of the industry's strategic ability is seen as excellent by only 5% of respondents, 48% perceive it as being consistent, 42% calls it mediocre and 5% of respondents believe that it is poor. The majority of respondents (74%) agreed that clients have become more demanding in terms of quality and output and 84% of the respondents felt that not enough is done to develop and nurture talent so the next generation of leaders is ready to take over. 87% of respondents agreed that agencies should set a fee for pitches. Respondents (61%) predicted that more consolidation will be seen within the industry in the next 12-24 months. Respondents (65%) further believed that the ideal of self regulation via the ASA needs to be revisited and 75% of respondents indicated that advertising agencies could do more to understand their clients' business as margin pressures removed deep and longstanding relationships.

Xate (2006) concurs and states that the industry still needs to understand and adapt to the psychological meanings of transformation and not just correct their equity shares. She further believes that there is a lot not right with the industry naming a lack of accountability, a lack of trust between advertising agencies and their clients, and a lack of effective leadership to drive valuable and genuine transformation (Xate 2006). Nkosi (2006) supports these views and adds that advertising executives see the need for transformation but their strategy is short sighted in that they are mainly interested in complying with scorecards rather than a long-term strategy to manage diversity and strategically place the industry at the forefront of transforming the society, and in particular the economy.

According to Nkosi, Executive chairman of the Mediashop, "The challenge of the advertising industry is to see and market itself as an integral part of a business, not merely as a support to a business. This allows for the relevant businesses to view advertising as a vital component of the business process, leading to increased rates of return" (Nkosi 2006:16).

Agencies need now, more than ever, to build strong relationships with advertisers. Income and margins are under extreme pressure as media commissions on their work are no longer paid and more niche specialists enter the industry. This results in agencies creating or acquiring niche companies of their own but that's of little comfort to the agencies themselves (Furlonger 2005). The more recent economic conditions put even more pressure on agencies to think big with minimal budgets (Motloung 2008b).

When agencies are on margins of 4%-5%, Furlonger (2005) says, they have little to reinvest in skills retention and training. Many talented

people who used to work for agencies now work for clients because clients have more money to invest in people. Clients then complain about the lack of agency skills and product understanding. And the vicious circle continues.

## **2.3 Conclusion**

In this chapter the relevant research context was identified to delimit the scope of the study to include companies operating in a specified service sector in a business-to-business market environment. This study will focus on the advertising industry in order to gain a better understanding of business relationships with specific reference to supplier replacement considerations. The advertising industry is most suitable as the size of contracts is mostly substantial with high transactional value and the appointment of agencies is often based on accountable purchasing processes. Relationships between agencies and clients tend to have a long term focus. Offerings are customized and require interactive marketing and customer retention is seen a critical success factor.

This industry also presents unique challenges. Carr (2004) made the analogy that advertising is a battlefield. On the one side there are clients who wish to increase sales and on the other side you have creative people, salivating at the prospect of indulging their wildest flights of fancy. Somewhere, in the middle you have account managers who have the unhappy task of melding the two desires into a campaign. Creativity may be the fun part of advertising, but it can never exist in a vacuum, since all the awards in the world are not going to placate a client who has spent a fortune on a campaign only to watch his sales plummet. Commercial reality demand long and lasting relationships that are beneficial to both parties. Insights into the

consideration set formulation of buyers will thus assist all the players in this industry.

## **CHAPTER 3**

# **INTERORGANISATIONAL EXCHANGE BEHAVIOUR**

### **3.1 Introduction**

Despite considerable research that has focused on the attributes associated with evaluating and selecting advertising agencies, and an emerging body of literature emphasizing customer loyalty and retention, advertising agency-client investigations have often analysed these attributes in isolation (Han, Kwortnik & Wang 2008). In response, this chapter will consider existing literature to evaluate possible antecedents that will offer meaningful insights into buyer consideration set formulation. The prevalent theories identified from the extant models of business-to-business relationships were relational contract theory, social exchange theory and transaction cost economics. These theories will guide and provide structure to the discussion on customer retention and particular attributes which are valued by clients when making an agency selection.

### **3.2 Customer Retention**

The traditional marketing approach advocates the marketing mix principle and the quest for market share dominance through mass marketing techniques and a focus on new customer acquisition (Ahmad & Buttle 2002). Several authors have, however, drawn attention to the inadequacies of the traditional marketing approach (Grönroos 1994; Gupta & Lehmann 2003; Gupta, Lehmann & Stuart 2003; Keegan 2004; Rust, Lemon & Zeithaml 2004; Venkatesan & Kumar 2004; Verhoef 2003) and agreed on various new drivers that should guide marketing efforts. These included the evolving recognition of the importance of customer retention, market economics and customer relationship economics (Grönroos 1994; Verhoef 2003).

According to the Marketing Science Institute (2002) as cited in Burnham, Frels and Mahajan (2003) reduced regulation, increased price competition, and diminished consumer loyalty have propelled customer retention and customer relationship management to the forefront of marketing concerns. As firms shift toward customer equity management they seem to focus their attention more on managing customer retention (Thomas 2001). Customers should be seen as important intangible assets (Gupta & Lehmann 2003) and be valued and managed accordingly (Gupta, Lehmann & Stuart 2003; Hogan, Lemon & Rust 2002). This study probes the subject of 'customer retention' in order to understand how customers' preferences and choices vary with their experience of a particular service. It is important to understand this research phenomenon, as despite its potential benefits, customer retention did not obtain much attention in strategic or marketing planning processes (Ahmad and Buttle 2001).

### **3.2.1 Defining and Measuring Customer Retention**

Theoretical positions relating to customer retention emerged from three main perspectives namely; services marketing, industrial marketing and general management (Ahmad & Buttle 2002).

From the services marketing perspective, customer retention has been conceptualized as a consequence of customer perceived service quality and customer satisfaction (Ahmad & Buttle 2002; Berry & Parasuraman 1991; Venetis & Ghauri 2004; Zeithaml & Bitner 1996).

From the industrial marketing perspective, the way to retain customers is by forging multi-level bonds comprising of financial, social and structural bonds (Ahmad & Buttle 2002; Turnball & Wilson 1989; Venetis & Ghauri 2004). From this perspective, core products are often of little significance to potential buyers. Augmented products such as

technical advice and long-term costs of maintenance and operation tend to be more important than functional features and selling prices. Turnbull and Wilson (1989) argued that firms should build marketing programs that create value to the customer and either require investments by the buyer that cannot be salvaged if the relationship ends, and/or may be expensive if the buyer must supply this service themselves if they change source. These authors suggested that profitable customer relationships should be protected through not only social but also financial and structural bonds. Social bonds, according to Turnbull and Wilson (1989), refer to positive interpersonal relationships between the buyer and seller. Structural bonds are the ties created on a corporate level in a relationship that, if terminated, will result in considerable economical or financial costs for the parties (Venetis & Ghauri 2004). These bonds will be discussed in more detail under transaction-specific investments.

General management advocates retention measurement (i.e. Aspinall, Nancarrow & Stone 2001), analysis of customer portfolios (i.e. Gupta, Lehmann & Stuart 2003; Hogan, Lemon & Rust 2002), clear market definition (Forlani & Parthasarathy 2003), and effective customer segmentation and selection (McDonald & Dunbar 2004). Customer retention management can be problematic if it is not defined precisely in a way appropriate to the firm's business (Ahmad & Buttle 2001). Success in business is dependent on clear thinking on the fundamental conceptual issues of retention (Aspinall, Nancarrow & Stone 2001). If customer retention is a major focus, then a key question is what exactly is an organisation trying to retain? According to Aspinall, Nancarrow and Stone (2001) the list of possibilities is long (see Table 3.1). Reasons for customer retention may include behavioural and/or attitudinal variables. Behaviour is a reflection of the current or more likely



historical situation, while attitudes provide clues to future behaviour (Aspinall, Nancarrow & Stone 2001).

**Table 3.1 The Multifaceted Nature of Retention: Some Examples**

Behaviour	Hearts and minds (attitudinal variables)
Number of customers (including dormant) Number of active customers Frequency of buying Recency of buying Size of expenditure Share of expenditure Possibly even extent of cross-sales Contract Adjust buying/usage procedures to fit supplier Routinised re-ordering Join club Proven advocacy Enquiries Provide information when requested re needs and/or characteristics Notify of complaints and successes Give you more time than competitors Pay attention to organisation's announcements	Salience of brand proposition and its components Brand preference Psychological commitment/loyalty Trust Empathy Propensity to consider buying/use again/contribute resources Propensity to pay more/a premium Customer satisfaction/delight Likelihood to recommend/advocacy Possibly even top-of-the mind awareness

*Source: Aspinall, Nancarrow and Stone (2001)*

Once clear on the 'what to retain', the question of measurement should be raised. Should purchases be measured in terms of absolute numbers of customers (crude retention rate) or their relative purchases (weighted retention rate)? Should purchases be measured in terms of value or volume? Another concern is the appropriate interval to use when retention is measured. This interval should consider the nature of the business and, more specifically, the repurchase cycle appropriate to the industry (Ahmad & Buttle 2001). A much more complex computation arises when (1) customers have multiple suppliers, (2) a few customers have a disproportionate spend relative to other customers and (3) individual customers have several accounts with a single supplier (Ahmad & Buttle 2001).

DeSouza (1992) suggested a measure of a weighted retention rate rather than a crude retention rate. A crude retention rate measures the absolute percentage of customers that are retained compared to a weighted retention rate that refers to the rate that recognizes the relative importance of the buyers in terms of the volume of sales. If a defected customer had unit purchases that were double the average of all customers, his/her weighted retention rate should also be doubled or counted as equivalent to two customers. In addition, suppliers may also have to account for customers' relative importance in terms of potential growth in their demand. This may be measured in terms of the growth in the market (Ahmad & Buttle 2001).

Other authors suggest that capturing a targeted proportion of the total spend by an individual customer is a much more useful measure than merely ensuring that accounts are not closed (Malthouse & Blattberg 2005). The lifetime value of a customer refers to the customer's net present value of the expected benefits (e.g. gross margin) less the burdens (e.g. direct costs of servicing and communicating) from customer (Best 2008; Dwyer 1997). If the cost of attracting a customer is considered as a 'sunk cost' then the focus can be directed to achieving a surplus of revenue on the costs of selling and servicing the customer. If the period of relationship as well as the future revenues and cost can be projected, then the net value can be calculated and discounted at a chosen discount rate (usually a rate that takes into account the company's cost of capital and risk) in order to arrive at the lifetime value of a particular customer (Ahmad & Buttle 2001).

In an ideal world, management would develop a customer behaviour model that incorporates all the relevant key variables and describes the relationship between them. The model may be a simple qualitative description of how the variables influence each other or it might be possible to develop sophisticated statistical algorithms that permit

'what if' analysis. Thus from a conceptual and operational viewpoint, it may be that no single variable should be regarded as representing retention.

The optimal measure of customer retention would be one that is able to measure not only the absolute, crude or relative retention rate but, also and more importantly, it would be one that contributes to increases in the suppliers' present and future profitability (Ahmad & Buttle 2001). This study will aim to understand and describe the application and interpretation of this concept within the advertising industry. Retention intentions, in this context, can be measured by the respondents' intention to renew a contract or a propensity to continue with the working relationship given the existing working conditions.

Lastly, customer retention can be seen as the mirror image of customer defection. Ang and Buttle (2006) state that a high retention rate has the same significance as a low defection rate. Customer defection is thus inextricably bound to customer retention. Customer defection is, after all, mostly the result of poor customer retention efforts

### **3.2.2 Reasons for Customer Defection**

In order to retain customers better, it is important to look at the reasons for customer defection.

DeSouza (1992) identifies six types of defectors namely;

- (1) Price defectors – customers who switch to a low-priced competitor;
- (2) Product defectors – customers who switch to a competitor who offers a superior product;
- (3) Service defectors – customers who leave because of poor service;

- (4) Market defectors – customers who are lost, but not to a competitor. The customer may go out of business or move out of the market area;
- (5) Technological defectors – customers who convert to a product offered by companies from outside the industry;
- (6) Organisational defectors – customers who are lost because of internal or external political considerations.

Keaveney (1995) identified eight causes of defection in service industries namely; price, inconvenience, core service failures, failed employee responses to service failure, ethical problems, involuntary factors, competitive issues and service encounter failures. According to this study six of the eight causes of defection are controllable by the service provider. These types and causes will be considered in this study.

### **3.2.3 Retention versus Loyalty**

Customer retention is mostly seen as an outcome of loyalty and is often used as a proxy or substitute word for loyalty - one being equal to the other. Retention is, however, not the same as loyalty (Morris & Holman 1998). A discussion of loyalty is thus important in order to illustrate the differences between these concepts.

In consumer research conducted in the 1960s and 1970s, customer loyalty was approached predominantly from a behavioural perspective. Jacoby and Chestnut (1978) observe that in these studies the focus were on interpreting patterns of repeat purchasing as a manifestation of loyalty. Day (1969) criticised the behavioural approach for a lack of a conceptual basis and Bass (1974) pointed out that stochastic components (i.e. randomness that could not be explained) occur in repeat purchasing patterns. Researchers began to

question the adequacy of using behaviour as a measure of loyalty (De Ruyter, Wetzels & Bloemer 1998).

Research interest then moved to studying the linkages between customer satisfaction, service quality and customer loyalty. The direct relationship between customer satisfaction and loyalty has been shown to be complex and asymmetric (Bloemer & Kasper 1995; Mittal & Lassar 1998; Oliver 1999); some research has shown that switching behaviour and repurchase intentions are not consistent with satisfaction levels (Strauss & Neuhaus 1997). On the other hand a number of studies suggest that there is a significant positive relationship between customer satisfaction and customer loyalty (Anderson & Sullivan 1993; Best 2008; Cronin, Brady & Hult 2000; Shemwell, Yavas & Bilgin 1998; Taylor & Baker 1994).

In recognition of the limitations of satisfaction as a proxy measure for loyalty, behavioural measures such as recency, frequency and monetary value (typical measures utilised in direct marketing) are increasingly being used (Assael 1992). However, despite the ability to generate a more accurate picture of where and how much customers are spending, it has been argued that "loyalty implies a commitment to a brand that may not be reflected by just measuring continuous behaviour" (Assael 1992:87). In particular, behavioural measures are limited in determining the factors which influence repeat purchase (Dick & Basu 1994). "Behavioural measures are insufficient to explain how and why brand loyalty is developed and/or modified" (Dick & Basu 1994:100). Although behavioural measures do overcome some of the limitations of using satisfaction as a proxy measure for loyalty, it is clear that behaviour is also insufficient as a measure of store or brand loyalty (Dick & Basu 1994; McGoldrick & Andre 1997). As a result, the

extent to which behavioural measures are of benefit in developing long-term loyalty strategies is clearly questionable.

Indeed, the conceptualisation of loyalty has caused much controversy among academics and practitioners. Although there is some agreement on this construct, three conceptualisations of loyalty remain popular (Uncles, Dowling & Hammond 2003) namely:

- (1) Loyalty as primarily an attitude that sometimes leads to a relationship;
- (2) Loyalty mainly expressed in terms of revealed behaviour (i.e. the pattern of past purchases);
- (3) Buying moderated by the individual's characteristics, circumstances, and/or the purchase situation.

All these conceptualisations are grounded in considerable amounts of market research data and analysis. But, despite the weight of empirical evidence, controversy persists.

Marketing literature has as a result adopted two philosophies to consumer or buyer behaviour addressing loyalty, namely the deterministic and the stochastic views. According to the deterministic philosophy, behaviours do not just happen; rather, they are a direct consequence of marketers' programs and their resulting impact on the attitudes and perceptions held by the customer (Rundle-Thiele 2005). The stochastic view on the other hand describes loyalty as a result of random forces. That is, changes in a brand's market share can only be described by chance. Researchers holding this philosophy acknowledge that marketers can cause changes in behaviour but that the bulk of the explanation lies in a multitude of variables that occur with unpredictable frequency - a pattern that is stochastic (Rundle-Thiele 2005). The problem in defining loyalty lies in identifying whether

loyalty is an attitudinal or behavioural measure or then if loyalty should be viewed from a deterministic or stochastic view.

It seems that neither attitudinal nor behavioural measures, on their own, are sufficient to explain or define loyalty. "The very term 'loyalty' implies commitment rather than just repetitive behaviour, which suggests that there is a need for a cognitive as well as a behavioural view" (Asseal 1992:89). Loyalty should be interpreted as true loyalty rather than repeat purchasing behaviour, which is the actual rebuying of a brand, regardless of commitment (Bloemer & Kasper 1995). Loyalty is thus not the same as repeat purchases, which implies that retention could not be used as proxy for loyalty. Loyalty should rather be defined as the non-random repurchase behaviour (behavioural loyalty), following a process of evaluation (mental loyalty) (Costabile 2002).

Retention is seen as the decision to continue business with a supplier (an action) compared to loyalty that constitutes both cognitive and behavioural actions. Retention should not be used as a substitute for loyalty. Although customer retention is seen as a prerequisite for loyalty, loyalty is not a prerequisite for retention. Companies thus need to understand the nature of their consumers' reasons for staying and must not assume that it is a positive, conscious choice (Colgate, Steward & Kinsella 1996).

Customer retention merits research because of its association with profits and because it helps us to understand the nature of loyalty (East, Harris, Lomax, Willson & Hammond 1998).

### **3.2.4 Importance of Retention**

The reasons for the importance of retention are varied. Customers today have become much more powerful than they were before and

much more willing to switch suppliers and experiment. In the business-to-business context, trends toward Internet purchasing and other forms of e-procurement may lead to more opportunistic buying behaviour and more concern about evoked set inclusion (Kauffman & Leszcyc 2005). The impact of the Internet in terms of online reverse auctions (Jap 2000) as well as globalisation has led to greater choices and buyer empowerment of industrial buyers. Increasing competitive pressures, rapid technological changes and shorter product lifecycles also call for more interactive, collaborative and long-lasting approaches to buyer-seller relationships (Leonidou 2004).

While the precise meaning and measurement of customer retention can vary between industries and firms (Aspinall, Nancarrow & Stone 2001) there appears to be a general consensus that focusing on customer retention can yield several economic and non-economic benefits to both parties involved (Bolton, Lemon & Bramlett 2004; Venetis & Ghauri 2004).

To illustrate the importance of retention most studies refer to work done by Reichheld (1996) who identified six economical benefits of retaining customers:

- (1) savings on customers' acquisition or replacement costs;
- (2) a guarantee of base profits as existing customers are likely to have a minimum spend per period;
- (3) growth in per-customer revenue as, over a period of time, existing customers are likely to earn more, have more varied needs and spend more;
- (4) a reduction in relative operating costs as the firms can spread the cost over many more customers and over a longer period;



- (5) free of charge referrals of new customers from existing customers which would otherwise be costly in terms of commissions or introductory fees; and
- (6) price premiums as existing customers do not usually wait for promotions or price reductions before deciding to purchase.

The overwhelming argument for customer retention is that it is cheaper to retain than to acquire new customers (Blattberg & Deighton 1996; Rosenberg & Czepiel 1984; Reichheld, 1996). The end goal of a firm's marketing activities in the profit sector, irrespective of the way sales are made, whether transactional encounters or relationships, is making profits (Ahmad & Buttle 2001). Lindgreen, Davis, Brodie and Buchanan-Olivier (2000: p295), for example, calculated that "it can be (up to) ten times more expensive to win a customer than to retain a customer – and the cost of bringing a new customer to the same level of profitability as the lost one is up to 16 times more".

As customer tenure lengthens, the volumes purchased grow and customer referrals increase. Simultaneously, relationship maintenance costs fall as both customer and supplier learn more about each other. Because fewer customer churn, customer replacement costs fall. Finally, retained customers may pay higher prices than newly acquired customers, as they are less likely to receive discounted offers that are often made to acquire new customers. All of these conditions combine to increase the net present value of retained customers (Ang & Buttle 2006).

The assertion that retention has non-economic benefits is underpinned by behavioural or psychological arguments. Morgan and Hunt (1994) argued that, in a network comprising partnerships with external parties, namely buyers, suppliers, competitors, governments and non-profit

organisations and with internal parties, namely employees, departments, and business units, commitment and trust in relationships engender cooperation, acquiescence, a reduced tendency to leave the network, reduced uncertainty and the belief that conflict will be functional. Existing customers can not only provide feedback about products and services, but also work together with suppliers to add value to a particular product or service by improving its functional features or by modifying the manufacturing or work processes which use the product. Over time, exchange efficiencies can be created between the parties and effectiveness can be increased (Venetis & Ghauri 2004). In other words, better quality can be delivered at lower transactional costs (Heide & John 1992).

Consequences of a high defection rate are also clear. The scope for recouping the "sunk costs" of the initial expenses incurred in acquiring the customer is endangered. Similarly, potential for earning additional profits through more effective servicing of the customer's developing needs is lost (Colgate, Steward & Kinsella 1996). In the case of business markets, defection management should be an important strategic consideration as business relationships are connected by their nature and it is hard to end relationships with one actor without affecting other relations (Törnroos 2004). Value is often co-created by using the multiple competencies of more than one firm, and the loss of one link will affect the whole chain. This is also the case where technological dependencies exist or where efforts are combined for research and development purposes (Törnroos 2004).

To conclude, a study done by Gupta, Lehmann and Stuart (2004) found that a 1% improvement in retention, margin, or acquisition cost improves firm value by 5%, 1% and 0.1% respectively. They also found that a 1% improvement in retention has almost five times greater

impact on a firm's value than a 1% change in discount rate or cost of capital. This study was conducted using an established firm with traditional financial methods and four Internet firms with less traditional methods trading in different industries. In all cases, results showed consistent patterns, namely that improved customer retention has the largest impact on customer value, followed by improved margins, and reduced acquisition cost has the smallest impact. These results are likely to be even more pronounced in a b2b context because the individual value of customers is seen to be higher and the number of total customers is lower compared to consumer markets.

### **3.3 Interorganisational Exchange Behaviour**

In order to understand customer re-patronage Lawler (2001) suggested an effect theory of social exchange, which views social units as a source of emotions that are contingent on the degree of jointness in an exchange task. In a service setting, the social units can be relationships between service providers and customers (Sierra & McQuitty 2005). Jointness refers to the degree of shared responsibility in a service exchange, and emotions of joy/no joy result from perceived shared responsibility for service tasks success/failure (Lawler 2001). Lawler's theory predicts that as the degree of shared responsibility rises, the degree of emotions also has the potential to increase and be directed at the service relationship.

The social exchange theory may well have the potential to provide a unitary framework for much of inter-organisational behaviour (Cropanzano & Mitchell 2005). It should however be noted that the social context of market exchange is emphasized in this theory and care should be taken to avoid "over-socialising" in business-to-business markets (Prenekert & Hallen 2005). This study will therefore, use this

framework to facilitate the discussion of inter-organisation exchange behaviour but compliment the framework with economic behaviour and motive, stemming from the transactional cost economic and relational contract theories. The framework will further be populated with constructs, deemed relevant to customer retention, from the managerial sciences literature. Constructs that influence the customer's retention intentions from a market, offer and relationship perspective will be addressed within this framework.

### **3.4 Social Exchange Theory**

The social exchange theory (SET) has its origin in behavioural psychology (Skinner 1950), anthropology (Firth 1951), sociology (Holmans 1958) and social psychology (Thibaut & Kelly 1959). SET argues that individuals or corporate groups interact for reward or with the expectation of a reward from their interactions with others (Griffith, Harvey & Lusch 2006). As such, SET argues that attitudes and behaviours are determined by the rewards of interaction minus the penalty/costs of that interaction (Griffith, Harvey & Lusch 2006). The social exchange theory is thus a social psychological perspective that explains social change and stability as a process of negotiated exchanges between parties. It is said that SET is of the most influential conceptual paradigms in organisational behaviour (Cropanzano & Mitchell 2005).

In general the majority of SET models, in organisational science, focus primarily on understanding workplace behaviour and exchanges between employees and employers. This study will use this theory and framework to facilitate a better understanding of buyer-seller relationships. Considering the desired relationships between advertising agencies and their clients, one could argue that this

relationship “complies” with that of an employer-employee. Often agencies are regarded in a similar manner as other internal departments due to the close interactions between the agency and its client. Inter-organisational behaviour will be reviewed under the fundamental ideas of SET's explanatory power namely: (a) rules and norms of exchange, (b) resources/offer exchanged, and (c) relationships that emerge (Cropanzano & Mitchell 2005). This framework is consistent with the work done by De Ruyter, Moorman and Lemmink (2001) who argue that loyalty intentions are influenced by the perceptions of customers of the company's perceived “market position”, by the perceptions of the customer of the company's “offer”, and the perceptions of the “relationship” between the customer and company.

### **3.4.1 Rules and Norms of Exchange**

One of the basic tenets of SET is that relationships evolve over time into trusting, loyal and mutual commitments. To do so, parties must abide by certain “rules” of exchange (Cropanzano & Mitchell 2005). These rules and norms form the guidelines of exchange processes. Most management research focuses on expectations of reciprocity (Cropanzano & Mitchell 2005); however, a number of other exchange rules have been identified within SET, the market as well as within the advertising industry. Thus, this section will outline reciprocity rules, but this discussion will also be extended to include negotiated rules and other rules deemed important to the exchange process.

#### **3.4.1.1 Reciprocity Rules**

Reciprocity or repayment in kind is probably the best known exchange rule. In general, with reference to exchange, a party can have at least three postures to another person: (a) independence (outcomes are based entirely on one's sole effort), (b) dependence (outcomes are

based entirely on the other's effort), and (c) interdependence (outcomes are based on a combination of parties' efforts). Complete independence and complete dependence do not imply a social exchange because an exchange requires a bidirectional transaction. Interdependence, on the other hand, involves mutual and complementary arrangements and is a defining characteristic of social exchange (Cropanzano & Mitchell 2005). In this tradition, a 'reciprocal exchange' is understood as one that does not include explicit bargaining. Rather, one party's actions are contingent on the other's behaviour. The sequence is likely to be continuous, making it difficult to organise it into discreet steps. A great deal of research has investigated the role of interdependence in exchange within the organisational behaviour (Cropanzano & Mitchell 2005). Business and economic literature however, relate social exchanges to the level of dependency or buyer power present in buyer-seller relationships. This discussion will consider the level of dependency/power present within buyer-seller relationships and will be extended to consider possible sources of dependency. Moreover, uncertainty as an underlying antecedent of dependency will also be considered.

#### **a. Level of dependency**

Dependence in relationships can be explained from at least four different theoretical perspectives such as the resource dependence theory (see procedural switching costs, p83), transaction cost approach (see financial switching costs, p85), the network approach and the social exchange theory (Hammervoll 2005; Roemer 2006). These different research streams propose that dependence in relationships arises whenever alternative partners would deliver low values to a relationship in comparison to the incumbent partner, or when potential alternative partners are nonexistent. In contrast, dependence is low when a partner has valuable outside alternatives

(Roemer 2006). Dependence will be addressed considering the network approach, the social exchange theory as well as considering situational characteristics in which buying activities take place.

Dependence of a buyer on a seller refers to a buyer's need to maintain the relationship in order to achieve desired goals (Ganesan 1994). This dependence increases when outcomes obtained by the buyer from the seller are important and highly valued; outcomes obtained exceed outcomes available to the buyer from the best alternative; and/or there are a few alternative sources or potential sources of exchange (Heide & John 1992). In this context a standard represents the overall quality of outcomes (economical, social, and technical) available to the firm from the best alternative exchange relationship (Anderson & Narus 1990). Firms with greater relative dependence have, by definition, relative greater interest in sustaining the relationship. When a lack of choice leads to dependency companies may seek strategic alliances or partnerships as a way of "locking in" a supplier thus counteracting the otherwise weak position (Hunter, Bunn & Perreault 2006).

In comparison, buyer power reflects the profitability and attractiveness of a sale to the buying firm by one or more suppliers, and the suppliers' desire for the customer's business. Buyer power is thus the purchasing firm's ability to command favourable outcomes in the supply market including terms of sale, seller concessions and transfer of risk to the seller (Hunter, Bunn & Perreault 2006). With a broad choice set and greater competition among sellers, buyers may gain concessions by playing one vendor against another.

This study will consider the level of dependency as well as the source of dependency. The level of dependency resides under reciprocity rules

whereas the source of dependency are in most cases negotiated and will thus be considered in the following section dealing with negotiated rules under switching barriers. As illustrated, the level of dependency is dependent on the extensiveness of the choice set which reflects the number of alternatives (suppliers) that are potentially able to meet the purchasing need (Hunter, Bunn & Perreault 2006). The level of dependency is further determined by the importance of the purchase and perceived buyer power.

#### **b. Uncertainty**

An underlying antecedent of dependency, according to Ganesan (1994), is decision making and task uncertainty. Uncertainty could be defined as a perceived gap between expected and actual future outcomes. Decision-making uncertainty is the degree to which an individual or organization cannot anticipate or accurately predict the environment.

Uncertainty may prevail for two reasons. Firstly, buyers may experience uncertainty because of a lack of relevant experience with the product/service category. Secondly, uncertainty may exist because of particular market conditions that impose demands on a buyers' information processing capacity (Heide & Weiss 1995). In essence, three different types of uncertainty exist, namely relationship, decision making and contextual (Ericksson & Sharma 2003). Firstly, due to the bounded rationality of decision makers, inter-firm cooperation is exposed to uncertainty regarding the future behaviour of counterparts, and the future outcome of the present cooperation (Ericksson & Sharma 2003). Although noted that relationships and the uncertainty of future behaviour contributes to the rules and norms of exchange, this study will address this type of uncertainty within the "Relationship of Exchange" discussion (see section 3.4.3, p97). Secondly, a decision



maker's perception of uncertainty in a buyer-seller exchange is influenced by a firm's internal resources, structures and routines (Ericksson & Sharma 2003). Decision makers' uncertainty was addressed in Chapter Two. Lastly, buyer-seller exchanges are affected by the surrounding environment (Ericksson & Sharma 2003). However, the surrounding environment is not objective as decision makers' knowledge shapes their perception of how the environment affects the cooperation between the parties. These perceptions will thus form antecedents to the relationship exchange discussed further in this review.

#### **3.4.1.2 Negotiated Rules**

Parties involved in exchanges may negotiate rules in the hope of reaching mutually beneficial arrangements (Cropanzano & Mitchell 2005). Negotiated agreements tend to be more explicit than reciprocal exchanges. In addition, the duties and obligations exchanged are fairly detailed and understood. Negotiated exchanges may continue beyond short-term agreements and may or may not be bound by legal or contractual sanctions. Negotiated rules have received a good deal of research within the organisational behaviour field, relating rules to employer-employee relationships, but have generally not been considered in the light of SET or are not explicitly used within the relationship management paradigm. In order to extend this concept to business management this section will consider switching barriers as well as regulatory imposed rules.

##### **3.4.1.2.1 Switching Barriers**

Interorganisational exchange relationship theory suggests that exchange partners can become attached or committed to each other, either from the lack of pressures for change or from the blocking of such pressures (Nielson 1996). Consistent with the latter view,

attachment has been defined as a binding force between exchange partners that can lead to the maintenance of an existing relationship to the exclusion of alternatives (Nielson 1996). This binding force is often regarded as the source of dependency. Based on a review of existing literature done by Hammervoll (2005: 52), sources of dependence were identified as "different combinations of different exchange partner actions that mediate the focal actor's goals".

Companies today are increasingly focusing their strategic efforts on creating such attachments or actions that will have an impact on a customer's decision to remain with a service provider. One such strategy is the introduction of switching barriers. In this regard, switching barriers represent any factor, which makes it more difficult or costly for consumers to change providers (Jones, Mothersbaugh & Beatty 2000). As switching barriers make customer defection difficult or costly it could foster greater retention. These "costs" are mostly negotiated but could also be incurred as a result of interpersonal relationships, perceptions and/or current market conditions.

#### **a. Switching costs**

Switching costs are the "one-time costs facing the buyer when switching from one supplier's product/service to another" (Bell, Auh & Smalley 2005). While switching costs must be associated with the switching process, it could be that it does not immediately incur upon switching (Burnham, Frels & Mahajan 2003). The cost associated with switching can either be financial or psychological in nature (Jones, Mothersbaugh & Beatty 2000). In many cases a failed relationship means that the client pays in the end not only in cost but through anguish over the break, followed by the delays involved in the new agency selection process, time consuming induction briefings, and the gradual, tedious development of rapport and trust with the new

agency (Michell 1987). Burnham, Frels and Mahajan (2003) developed a useful switching cost typology considering procedural, financial and relationship switching costs. This typology is deemed relevant to this study and warrant further discussion.

### **1. Procedural switching costs**

Procedural switching costs consist of economic risks, evaluation, learning, and setup costs. It primary involves the expenditure of time and effort and are dependent on product complexity and the heterogeneity of providers in the market. Another contributing factor is the extent to which the consumer employs a variety of product types, features, and functions offered by a provider (Burnham Frels & Mahajan 2003). In the advertising industry, the service may consist of campaign and material development, branding, media placement, event marketing and so forth. This complexity can lead consumers to perceive that switching to a new offering will involve the outlay of additional funds. Given the time and effort savings that a 'full-line producer' offers, consumers are likely to switch either all the products associated with a given provider or none of them. The prospect of switching multiple products increases the risks associated with switching providers – not only one product is at risk of performance, financial or convenience failure but multiple, often interdependent products are placed in jeopardy at once. When considering switching providers, consumers who use more products need to compare alternative providers on a greater number of attributes, they need to set up a greater number of new products or features, and they need to invest in learning how to use a greater number of new products or features (Burnham, Frels & Mahajan 2003).

Switching cost facets constituting procedural switching costs are:

- *Economic risk costs*, which are those costs of accepting uncertainty with the potential for a negative outcome when adopting a new provider about which the consumer has insufficient information (Burnham, Frels & Mahajan 2003). When a customer thus changes services providers there is some element of perceived risk that a new supplier might not perform the core service at a level equal to, or better than, the current supplier (Patterson & Smith 2003). This type of cost was already addressed under uncertainty.
- *Evaluation costs* are the time and effort costs associated with the search and analysis needed to make a switching decision. Time and effort are associated with collecting the information needed to evaluate potential alternative providers. Mental effort is required to restructure and analyse available information in order to arrive at an informed decision (Burnham, Frels & Mahajan 2003).
- *Learning costs* are the time and effort costs of acquiring new skills or know-how in order to use a new product or service effectively. Learning investments are often provider-specific meaning new investments must be made to adapt to a new provider (Burnham, Frels & Mahajan 2003).
- *Setup costs* are the time and effort costs associated with the process of initiating a relationship with a new provider or setting up a new product for initial use. Setup costs for services are dominated by the information exchange needed for a new provider to reduce its selling risks and understand the customer's specific needs (Burnham, Frels & Mahajan 2003).

Procedural switching costs are closely related to concepts used to establish the level of dependency. Dependency is however, not so explicitly expressed and is often not quantifiable to the same extent.

## **//. Financial switching costs**

Financial switching costs consist of benefits loss and financial-loss costs. This type of switching cost involves the loss of financially quantifiable resources. Often investments in relationships tie the members together; if the relationship is terminated, the investments are lost. The greater the breadth of products employed, for example, the more likely the customer has accumulated benefits that will be lost in switching. I.e. discount offered (Burnham, Frels & Mahajan 2003). Financial loss could further occur as the result of non-transferable intellectual property i.e. design work.

Switching cost facets constituting financial switching costs are:

- *Benefit loss costs* are the costs associated with contractual linkages that create economic benefits for staying with an incumbent firm (Burnham, Frels & Mahajan 2003).
- *Monetary loss costs* are the onetime financial outlays that are incurred in switching providers other than those used to purchase the new product itself. Adopting a new provider often involves onetime expenditures such as deposits or initial fees for new customers. In addition, switching providers may involve replacing transaction specific assets in which the consumer has invested (Burnham, Frels & Mahajan 2003).

Financial switching costs could also contribute to the level of dependency.

## **///. Relationship switching costs**

Relationship switching costs consist of personal relationship loss and brand relationship loss costs. This type of switching cost involves psychological or emotional discomfort due to the loss of identity and breaking of bonds (Burnham, Frels & Mahajan 2003). Relationships

between agencies and clients tend to have a long term focus and interactions between parties are mostly close and enduring. It is for this reason that relationship switching cost would be of particular interest for this study. Switching cost facets constituting relationships switching costs are:

- *Personal relationship loss costs* are the affective losses associated with breaking the bonds of identification that have been formed with the people with whom the customer interacts. Consumers' familiarity with incumbent provider employees creates a level of comfort that is not immediately available with a new provider (Burnham, Frels & Mahajan 2003).
- *Brand relationship loss costs* are the affective losses associated with breaking the bonds of identification that have been formed with the brand or company with which the customer has associated (Burnham, Frels & Mahajan 2003).

Relationship switching costs will be a consideration in the relationship exchange.

#### **3.4.1.2.2 Regulatory Imposed Rules**

Regulation illuminates the larger relationship between government and industry, for regulation represents an essential mechanism of public control over private sector behaviour (Vogel 1998). This section focuses on economic regulation, such as price or entry control. For example, within the South African context, a guiding requirement of procurement decisions is accreditation as a Black Economic Empowerment (BEE) compliant company. BEE accreditation is given to enterprises that have been accredited by the South African National Accreditation System on behalf of the Department of Trade and Industry, to agencies who meet the minimum technical and BEE

criteria. Although a detailed discussion on Broad-Based Black Economic Empowerment falls outside the scope of this review it is important to consider the implications of this government and industry initiative on repurchase intentions. This section will thus provide a general overview of BEE and Broad-Based Black Economic Empowerment and the application thereof to the advertising industry. Although this discussion will focus on the compliance of Advertising Agencies to BEE, advertisers will also have to adhere to government and industry requirements.

Government defines Black Economic Empowerment (BEE) as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the number of black people that manage, own and control South Africa's economy, as well as significant decreases in income inequalities. The BEE process includes elements of human resource development, employment equity, enterprise development, preferential procurement, as well as investment, ownership and control of enterprise and economic assets (Department of Trade and Industry 2006/).

The Broad-Based Black Economic Empowerment (B-BBEE) strategy (Act No. 53 of 2003, promulgated in January 2004) is government's intervention to address the systematic exclusion of the majority of South Africans from full participation in the economy. The vision of an economy that meets the needs of the people in a more equitable manner goes back to the Freedom Charter of 1955. This was refined and developed in the contemporary context in the Reconstruction and Development Programme formulated in 1994 and embodied in the South African constitution. Subsequently, government has outlined

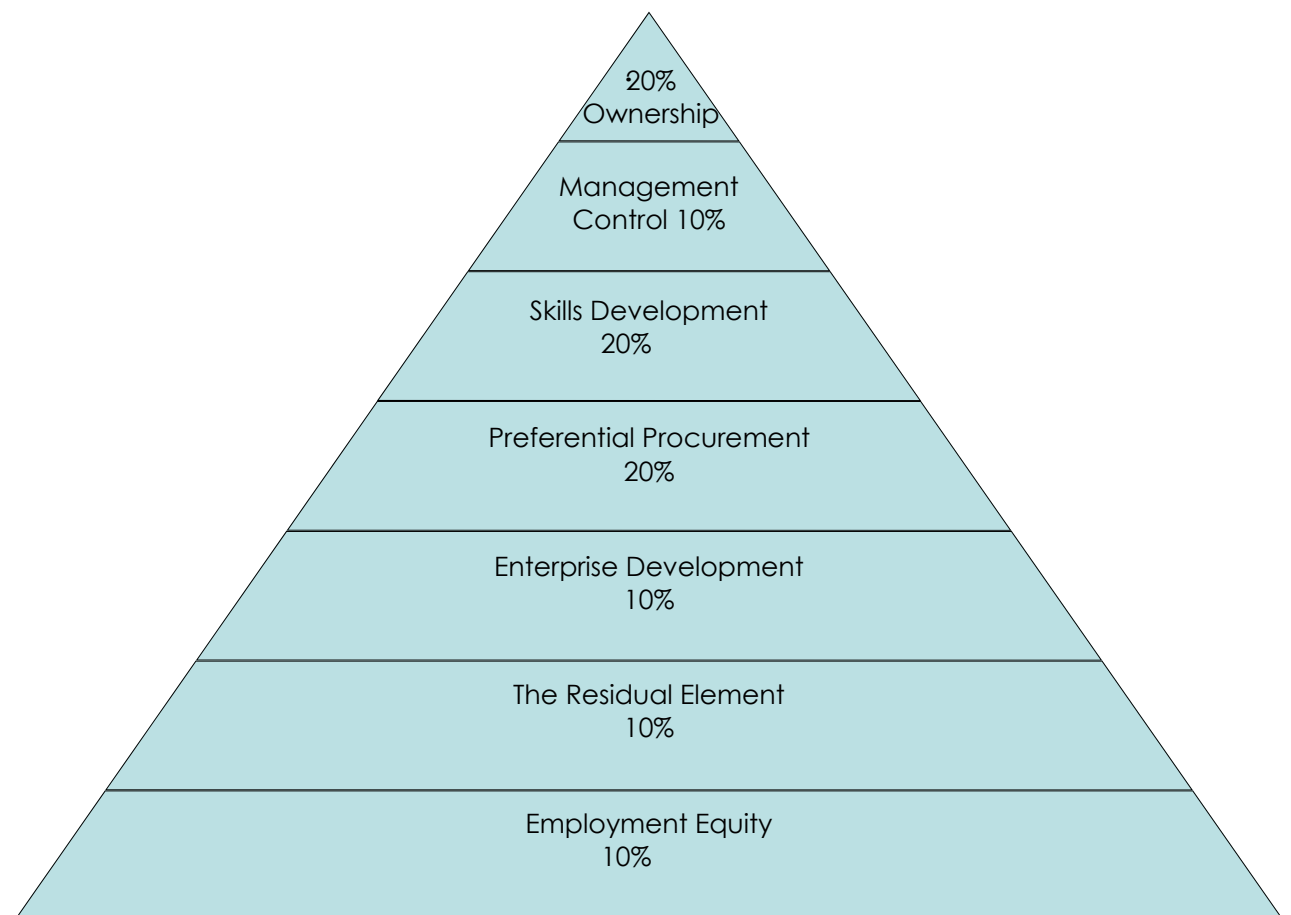
broad economic strategies to transform the economy by 2014 (Department of Trade and Industry 2006).

In order to achieve its objectives in respect of BEE, government is utilizing a number of policy instruments including; legislation and regulation, preferential procurement, institutional support, financial and other incentive schemes (Department of Trade and Industry 2006). The measurement of the successful implementation B-BBEE is mostly presented by the means of a broad-based scorecard comprising the seven elements of broad-based BEE (theDTI 2005). The seven elements and their respective weightings out of 100 are depicted below in figure 3.1. These elements comprise of ownership, management control, skills development, preferential procurement, enterprise development, the residual element and employment equity. In this context ownership measures the effective ownership of enterprises by black people. Management control measures the effective control of enterprises by black people. Skills development measures the extent to which employers carry out initiatives designed to develop the competencies of black employees. Preferential procurement measures the extent to which enterprises buy goods and services from suppliers with B-BBEE procurement recognition levels. Enterprise development measures the extent to which enterprises carry out initiatives designed to assist and accelerate the development and sustainability of other enterprises. The residual element (also known as the socio-economic development and sector specific contribution element) measures the extent to which enterprises carry out initiatives that contribute towards Socio-Economic development or sector specific initiatives that promote access to the economy for black people. Lastly, employment equity measures initiatives intended to achieve equity in the workplace under the Act, and the Employment Equity Act (theDTI 2005).



This brief overview will only provide the background for the remainder of the discussion which will focus on the application of BEE in the advertising industry.

**Figure 3.1: Broad Base Scorecard**



*Source: the DTI (2005)*

**a. Black Economic Empowerment in the Advertising Industry**

As previously stated the Association for Communication and Advertising (ACA) is a professional body that represents the collective interest of member agencies, estimated to represent roughly 75-80% of total advertising and marketing communication expenditure by marketers, and currently employing 2878 employees (ACASA 2006;

Motloung 2008a). This Association was, and currently is, instrumental in driving transformation within the Advertising Industry.

The ACA has embarked on a journey to transform itself since 1996, which has culminated in the launch of the ACA Transformation Charter in February 2000. Other stakeholders came on board after the Parliamentary Portfolio Committee on Communications convened public hearings into the pace of transformation in the advertising and marketing value chain. After finding that the pace of transformation in the value chain was unacceptably slow, the Portfolio Committee on Communications directed government, through Government Communications and the Department of Communications, to facilitate a consultative process with all stakeholders to find a common blueprint for the transformation of the industry (ACASA 2006).

This mandate resulted in the first joint undertaking by all stakeholders to commit to a unified view and common approach. This was codified as "The Values Statement of the Marketing and Communication Industry". It was endorsed by all stakeholders, adopted and signed on 23 April 2003. The Values Statement, reproduced in full in annexure 3, is the foundation on which the Marketing, Advertising and Communication Charter is based.

The "Marketing, Advertising and Communication Charter" has further set quantitative goals with regards to transformation targets which were agreed to and these are presented in the scorecard (annexure 4). This scorecard depicts the core components of the B-BBEE, BEE elements as prescribed by legislation, relevant weightings, specific indicators that will guide the implementation and measurement of the BEE elements and lastly targets set incrementally from 2006 to 2012.

Adherence to and challenges created by this scorecard, within the advertising industry, were discussed in Chapter Two.

As rules and norms form the guidelines of the exchange process it is important to consider and evaluate its contribution to the buyer-seller relationship. Rules and norms often do not form part of the holistic overview when agencies are selected and/or evaluated. Moreover, when these antecedents are addressed as part of the 'offer' or 'relationship' of exchange, it is often from another perspective, focus or context.

### **3.4.2 Offer of Exchange**

The social exchange theory view exchange in terms of economic value as well as symbolic relevance (Cropanzano & Mitchell 2005). When considering offer of exchange it is important to determine factors which advertisers use to assess the capabilities of current or prospective agencies in the selection or evaluation process. Considering published literature in this regard 'guidelines' are prescribed in three focus areas: (1) factors leading to satisfaction or dissatisfaction of current relationships, (2) descriptions of the selection process, (3) presentation of 'ideal' criteria or checklist (Cagley 1986).

The latter two focus areas will be addressed within the 'offer of exchange' discussion, followed by a discussion on 'service satisfaction.'

#### **3.4.2.1 Service Offered**

Advertising agencies are service organisations that specialize in planning and executing advertising programmes for their clients. The concept of the advertising agency has remained basically the same since the 1950s with agencies operating in basically the same way they always have (Kallmeyer & Abratt 2001).

When an advertiser (also referred to as client/buyer/customer) selects an advertising agency to organise, purchase, or handle the running of its promotional activities, there are certain "attributes, capabilities, or characteristics" that are valued by clients and must be satisfied before the final decision is made (Fam & Waller 1999:22). Several studies have observed this by means of analysing advertising agency evaluation or selection processes (Cagley 1986 and Cagley & Roberts 1984; Michell 1987), considering the core product/service as well as peripheral services agencies supply. Measures employed to calculate the importance of the core service include service output and performance.

**a. Service output**

In order to remain competitive, agencies are recommended to provide an appropriate range of services that are valued by clients, successfully manage their account teams and charge competitive rates (Palihawadana & Barnes 2005). As these requirements are considered to be qualifying dimensions, this study will consider service quality and performance as determining criteria for future relationships consideration. According to transaction cost economics and the distributive justice theory of equity, clients should respond in proportion to the expected value from their future exchanges attributed to their agencies (Davies & Palihawadana 2006). Expected value is drawn from previous exchanges with product output and performance.

Product output and performance is closely related to product/service quality (De Ruyter, Moorman & Lemmink 2001; Davies & Palihawadana 2006). Quality is defined by the American Society for Quality Control (Cyndee 1993) as the totality of features and characteristics of product or service that bear on its ability to satisfy stated or implied needs. Caceres and Paparoidamis (2007) deem delivering quality service to

be an essential strategy for success in today's competitive environment.

According to Davies and Palihawadana (2006) the most influential sources of account dissolution have been attributed to clients' perceptions of dissatisfying service quality based on either creativity or the quality of working relationships. This discussion will focus specifically on service quality relating to the actual service as opposed to quality of working relationships as discussed later in this report. The working relationship will also be considered when satisfaction is measured.

When agencies deliver consistent service quality, clients often expects future value from the relationship that can help to reduce switching (Bolton, Lemon & Bramlett 2004). Considering service output, two dimensions of service quality should be addressed, namely, quality that meets customer needs (design or technical quality) and quality that results from freedom of deficiencies (experience or functional quality). Design/technical quality is thus closely linked to product output and experience/functional quality to that of product performance (Bolton, Lemon & Bramlett 2004; Grönroos 2000).

Studies of client-advertising agency relationships further reveal the importance of performance dimensions associated with service quality. Product performance indicates the quality level at which the product's or service's primary characteristics operate (Kotler & Keller 2006). In this regard performance dimensions that add or detract value from exchanges are largely attributable to the creative process. Low standards of creative work have contributed to agency switching and relationship conflict (Davies & Palihawadana 2006). During service encounters the exchange process is dynamic, due to the evolving interaction between service providers and their customers. Service

providers have an opportunity to offer something special that stands out in a customer's mind, thereby increasing the likelihood of customers returning (Sierra & McQuitty 2005).

Service performance of advertising agencies can be classified as "task-interactive service" (Mills & Morris 1986). This is because overall agency performance is largely dependent upon the client, in both the domains of production and in actually creating service performance, the client and the agency need to work closely together (Woonbong, Marshall & Son 1999). It could be said that an advertiser/agency relationship is a joint venture implying mutual dependency i.e. the advertiser depends upon the agency's best efforts to provide materials and recommendations that will enable them to achieve their marketing goals and the agency depends on information, direction and endorsement of the advertiser to enable them to do their best work (McBride & Associates 2005). Indicators of creative performance thus reflect the importance of interaction quality (Davies & Palihawadana 2006). Agencies that disappoint on interactional quality encourage client perceptions of opportunism (functional/experience quality) or incompetence (technical/design quality), detracting from future exchange value thus weakening norms of equity. Interactive quality dimensions reported by Davies and Palihawadana (2006) are summarized in table 3.2. This table presents the dimensions as well as the interpretation thereof within the advertising industry. These dimensions incorporate service quality and performance of the service relationship.

**Table 3.2      Interactional Quality Dimensions in the Advertising Industry**

Dimension	Interpretation
Sound interpretation of briefing	Briefing is an iterative process for clarifying the advertising strategy between clients and their strategy.
Strength in strategic thinking	The ability to develop integrated campaigns using communication elements to reinforce consistent underlying values of the client organisation.
Integrity in offering advice	This is the ability to generate confidence in the honesty and impartiality of advice offered.
Stability of key management of account teams	Stability of key staff ensures that tactic knowledge between parties is retained, improving organisational learning, while norms of behaviour are upheld, reducing uncertainty about future roles and expectations.
Empathy to creative changes	Agency staff can show responsiveness to creative changes demanded by the client, demonstrating benevolence
Consistent work processes	Working to an agreed communication style that offers consistency, improve transparency and reduce governance costs
Proactivity in generating new ideas	The ability and willingness to conduct speculative creative work to add value in additional ways to the client's brief
Access to number of creative teams	The prospect of achieving a successful creative idea is improved by generating a quantity of creative ideas
Constant information on account status	Frequent, regular contact can promote effective performance.

*Source: Davies and Palihawadana (2006)*

#### **b.      Service satisfaction**

Service satisfaction is closely associated with service quality and performance. In fact, throughout the 1980s, service organizations relied on customer satisfaction and quality ratings obtained from surveys to monitor performance, compensate employees, and allocate resources (Bhote 1996). Initial customer satisfaction and quality improvement efforts tended to focus on tracking customer survey ratings over time, benchmarking them against competitors' ratings, or linking them to service operations. Higher survey ratings became, in effect, a goal in their own right (Bolton 1998).

In the 1990s, however, organizations have become increasingly concerned about the financial implications of their customer satisfaction and quality improvement. The financial justification for customer satisfaction and quality improvement programs primarily rests

on management's belief that higher levels of satisfaction or quality increase retention rates stimulate consumption levels, allow firms to charge a premium for their product/services, and/or decrease costs. These beliefs have become critical as service organizations have embraced relationship marketing. Thus, understanding the link between a customer's satisfaction and the duration and strength of his/her relationship with a service provider has become increasingly important for organizations that are attempting to predict future customer preferences and behaviour on the basis of past preferences, and use these predictions to develop competitive marketing strategies (Best 2008; Bhote 1996; Bolton 1998).

As the primary tool for managing customer retention, customer satisfaction has received unflagging attention in the marketing literature (e.g. Anderson & Sullivan 1993; Fornell 1992; Fournier & Mick 1999; Szymanski & Henard 2001). Firms around the world have adopted customer satisfaction measures as a de facto standard for monitoring progress, motivated by the belief that customer retention and profitability will follow (Burnham, Frels & Mahajan 2003).

A review of existing literature indicates a wide variance in the definitions of satisfaction. Oliver (1997:p13) addresses this definitional issue by paraphrasing the emotional literature noting that "everyone knows what [satisfaction] is until asked to give a definition. Then it seems nobody knows." While the literature contains significant differences in the definition of satisfaction, all the definitions share some common elements as highlighted by Griese and Cote (2000). When examined as a whole, three general components can be identified: 1) consumer satisfaction is a response (emotional or cognitive); 2) the response pertains to particular focus (expectations, product, consumption experience, etc.) and 3) the response occurs at a



particular time (after consumption, after choice, based on accumulated experience, etc.). SET indicates that performance satisfaction is important for maintaining relationships, supporting the need to maintain attractive exchanges (Davies & Palihawadana 2006). Satisfaction with service output and performance (after consumption) will thus be considered in order to determine the role thereof to buyer consideration set formulation.

As previously indicated, value is determined by both the offer and the relationship. The next section will therefore discuss the exchange relationship.

### **3.4.3 Exchange Relationships**

One of the most critical elements in b2b markets, and particularly a service market such as the advertising industry, is the development of client relationships. The complexity of the products and services and the long-term relations in the advertising industry mean that effective and satisfactory business relationships are of the greatest importance in the marketing of advertising services (Caceres & Paparoidamis 2007). Following an annual American based survey on the relationships between advertisers and agencies Kenneth G. Romanzi, domestic chief operating officer at Ocean Spray Cranberries, said "There are no bad advertising agencies, only bad agency-client relationships" (Elliott 2006). Results of this survey illustrated a need for more effective collaboration as advertising produced in a climate of trust is typically more likely to achieve its primary purpose of selling products to consumers.

Relationships refer to an association between interacting parties (whether individuals or institutions) (Cropanzano & Mitchell 2005). The importance of relationships with customers in business markets as part

of companies' operating strategies has been widely acknowledged (Krapfel, Salmond & Spekman 1995; Morgan & Hunt 1994; Weitz & Jap 1995; Wilson 1995). While the reasons for break-ups in agency-client relationships tend to be specific, the reason for 'loyal' relations are more general (Michell & Standers 1995).

Although various research studies consider the initiation of agency-client relationships, significantly less has been concluded that focuses on the nuances associated with nurturing and developing ongoing relationships (Palihawadana & Barnes 2005). According to Davies and Palihawadana (2006) indicators of relationship strength comprise of commitment, trust, collaboration, cooperation or partnerships and satisfaction. The discussion to follow will focus on the first four indicators as satisfaction was already addressed. Satisfaction with the identified relationship variables will however be considered to assess the overall level of satisfaction.

#### **3.4.3.1 Commitment**

Relationship commitment exists when a partner believes the relationship is important enough to warrant maximum efforts at maintaining that relationship in the long term (Caceres & Paparoidamis 2007; Morgan & Hunt 1994). Several different motivations can underlie this intention, thus leading to two different types of commitment: affective and calculative commitment (Geyskens, Steenkamp, Scheer & Kumar 1996; Han, Kworntnik & Wang 2008). Both types are relatively stable attitudes and beliefs about the relationship but stem from different motivations for maintaining a relationship. This twofold character of commitment is best described in the words of Johnson (cited in Söllner 1999:222) "People stay in relationships for two reasons: because they want to; and because they have to."

The motive underlying affective commitment is a generalized sense of positive regard for and attachment to the other party. An affectively committed company desires to continue a relationship because it likes the partner and enjoys the partnership. On the other hand, calculative commitment stems from an anticipation of high termination or switching costs associated with ending the relationship. It results from a calculation of costs and benefits (e.g., investments already made in the relationship), which is detached from the context of the relationship itself. Thus, calculative commitment is based on the perceived structural constraints that bind the firm to its partner and not a cognitive consideration of possible future opportunities provided by the latter (Gounaris 2005).

Organisational behaviour literature has typically conceptualized affective and calculative commitment as being independent; the extent to which one is affectively committed does not affect the degree of calculative commitment, and vice versa (Geyskens, Steenkamp, Scheer & Kumar 1996). It is further important to note that calculative commitment is an attitudinal phenomenon as it measures the degree to which a firm experiences a need to continue a channel relationship due to the high costs of leaving. As such, calculative commitment distinctly differs from dependence, which refers to the structure of the relationship. Whereas dependence measures structural elements that bind the firm to the partner, calculative commitment measures to what extent the firm's motivation to continue the relationship with that partner is based on these structural ties (Geyskens, Steenkamp, Scheer & Kumar 1996).

#### **3.4.3.2 Trust**

The most salient sources of client trust of agency performance involve either agency creativity or personal relationships between client and

agency personnel. These sources signal agency competence and benevolence jointly as important measures of trustworthiness (Davies & Prince 2005). A client's trust is thus focused on expectations of an agency's trustworthiness in a stream of future episodes (Agustin & Singh 2005). The degree of trust that develops between companies has been described as a "fundamental relationship building block" and a "critical element of economic exchanges" (Gounaris 2005:127). The more the customer trusts the supplier, the higher the perceived value of the relationship by the customer; consequently, one can expect a higher probability that the customer will remain in the relationship. As for the customer of b2b services, trust is an important element of the perceived quality of the service (Davies & Prince 2005; Gounaris 2005).

Trust also indirectly influences commitment. Indeed, because commitment entails vulnerability, parties will seek only trustworthy partners (Caceres & Paparoidamis 2007; Morgan & Hunt 1994). The social exchange theory explains this causal relationship through the principle of generalized reciprocity, which holds that "mistrust breeds mistrust and as such would also serve to decrease commitment in the relationship and shift the transaction to one of more direct short-term exchanges" (McDonald 1981).

Trust has been conceptualized as the belief that the relationship collaborators have developed reliability and integrity between them (Morgan & Hunt 1994) that the other company will only perform actions that will result in positive outcomes (Anderson & Narus 1990) study will concur with Gounaris's (2005:128) conceptualisation of trust as "the confidence of the exchange actors in the goodwill of each other". Trust is thus a belief, or an expectation, about an exchange partner's expertise, reliability and intentionality (Ganesan 1994). In this regard, trust encompasses two essential elements – trust in the partner's

honesty or credibility and trust in the partner's benevolence. Honesty refers to the belief that one's partner stands by its word, fulfils promised role obligations, and is sincere; benevolence reflects the belief that one's partner is interested in the firm's welfare and will not take unexpected actions which will negatively impact the firm (Ganesan 1994; Geyskens, Steenkamp, Scheer & Kumar 1996).

A buyer's trust in a seller affects the long-term orientation of a buyer in three ways: (1) it reduces the perception of risk associated with opportunistic behaviours by the seller, (2) it increases the confidence of the buyer that short-term inequities will be resolved over a long period, and (3) it reduces the transaction costs in an exchange relationship (Ganesan 1994).

#### **3.4.3.3 Collaboration and Coordination**

Dependence could lead to the necessity of cooperation and coordination between companies' business operations in order to achieve internal, and in some cases, mutual goals (Svensson 2004). Inter-organisational collaboration focuses on sharing of information, joint development of strategic plans and synchronizing operations. In effect, collaborating partners seek the benefits of vertical integration without the burden of financial ownership. This does not mean that resources are not required to support collaborations. Indeed, greater success is likely when collaborative partners integrate human, financial and technical resources to create a better model (Daugherty, Richey, Roach, Min, Chen, Arndt & Genchev 2006).

Cooperation refers to similar or complementary coordinated actions taken by firms in interdependent relationships to achieve mutual outcomes or singular outcomes with expected reciprocation over time (Anderson & Narus 1990).

It is important to note that collaboration and cooperation are sometimes used interchangeably. Cooperation and collaboration do not differ in terms of whether or not the task is distributed, but by virtue of the way in which it is divided; in cooperation the task is split (hierarchically) into independent subtasks; in collaboration cognitive processes may be divided into intertwined layers. In cooperation, coordination is only required when assembling partial results, while collaboration is a coordinated, synchronous activity that is the result of a continued attempt to construct and maintain a shared conception of a problem (Dillenbourg, Baker, Blaye & O'Malley 1995).

Collaboration and coordination between companies can facilitate both strategic and operational focus increasing the potential for cross-enterprise gains. Possible benefits may include improved customer service, more efficient use of resources, reduced cycle times, and increased information sharing (Daugherty, Richey, Roach, Min, Chen, Arndt & Genchev 2006). This study will consider these constructs by investigating account support, communication, and conflict harmonization.

#### **a. Account support**

Much emphasis has been placed on the importance of personal relationships between boundary spanning functions of account and sales management (De Ruyter, Moorman & Lemmink 2001). In a study conducted by Cagley and Roberts (1984) that considered criteria for Advertising Agency selection, results indicated that "quality of people assigned to the account" was identified by the respondents as the most critical attribute in the overall evaluation/selection process. In fact, data revealed that the seven most critical criteria deal primarily with a "people orientation" (Cagley & Roberts 1984). These critical criteria include; (1) Quality of people assigned to the account; (2)

Complete agreement between the agency and client on goals and objectives; (3) Need for agency personnel to thoroughly learn the characteristics of the advertiser's business; (4) Reputation for integrity; (5) Interaction with the advertiser when developing a creative strategy; (6) Compatibility of agency and client personnel; and (7) Willingness of agency to make recommendations and to object to advertiser decisions when the agency believes them to be wrong. As a result account support should be considered an important element in relationship management.

#### **b. Communication**

Communication refers to the formal as well as informal sharing of meaningful and timely information between firms (Anderson & Narus 1990). Research in communication processes suggest that the nature of the communication strategies used by the seller is reciprocated by the buyer and vice versa (Weitz & Jap 1995). According to De Ruyter, Moorman and Lemmink (2001) communication is considered when relations are evaluated by customers and communication is also an important input to customer commitment.

Collaborative communication strategies are characterized by greater frequency, bidirectionality, informality and noncoersiveness. Much of the research on relationship maintenance points to two critical aspects of communication that facilitate successful relationships in the long run namely extended interaction and active listening(Weitz & Jap 1995)

#### **c. Conflict harmonisation**

In relationships conflict may occur as a result of disagreement or perceived impediment of the attainment of mutual goals and objectives. Although conflict can have a negative effect on relationships, solving conflicts constructively may actually strengthen

inter-organisational relationships and lead to greater trust and affective commitment. Conflict harmonization is aimed at reaching mutually acceptable compromises without having to resort to formal procedures (De Ruyter, Moorman & Lemmink 2001).

### **3.5 Conclusion**

Much agency-client relationship research tended to focus on certain themes. The criteria used for selecting advertising agencies are for example widely discussed in the literature. Although a plethora of work exists regarding the initiation of agency-client relationships, there is significantly less focus on the nuances associated with nurturing and developing ongoing relationships (Palihawadana & Barnes 1995). Despite considerable research that has focused on the attributes associated with evaluating and selecting advertising agencies, and an emerging body of literature emphasizing customer loyalty and retention, contributing attributes are mostly analysed in isolation.

This chapter considered existing literature pertaining to agency-client relationships. Literature providing insights and contributions from other service settings and sectors were also used to report on relationship termination or the factors contributing towards switching. The social exchange theory provided a useful framework and background to the discussion of attributes deemed important to the buyer consideration set formulation. This chapter forms the input into the next chapter that deals with theory underlining the consideration set.



## **CHAPTER 4**

### **CONSIDERATION SET FORMULATION**

## **4.1 Introduction**

Corporations have come to view procurement as a strategic level concern in developing competitive advantage – and organisational buying has become more sophisticated and professional. For business-to-business marketers, survival and success hinges on making effective judgments about how customers approach supplier selection decisions (Hunter, Bunn & Perreault 2006). Despite the growing importance of these topics, few studies have examined the determinants of consideration sets (Wirtz & Mattila 2003). Whereas Chapter Two and Three considered the environment in which procurement occurs and elements of inter-organisational exchange behaviour this chapter will conclude the literature review by considering consideration set formulation.

In the discussion to follow a theoretical overview will be given on consideration set formulation. The theory will then be integrated with constructs identified in the previous chapters to provide a holistic perspective of all the determinants applicable to consideration set formulation for supplier replacement in the South African Advertising Industry.

## **4.2 Consideration Set Formulation**

The concept of 'evoked sets' was introduced in 1963 by Howard (cited in Petrof & Daghfous, 1996) and further developed in a Doctoral Dissertation by Cambell (cited in Howard & Sheth 1969) titled "The Existence and Determinants of Evoked Set in Brand Choice Behaviour". This theory is based on the buying process and explains the motivation behind a brand choice decision. The elements of this decision are seen as (1) a set of motives, (2) alternative brands, and (3) choice

criteria by which the motives are matched with the alternatives relevant and sometimes specific to a product class. The brands that become alternatives to the buyer's choice decision are generally a small number, collectively called the 'evoked set'. The size of the evoked set is at best a fraction of the brands that the consumer is aware of and a smaller fraction still of the brands that are actually available in the market (Howard & Sheth 1969). Serving as the foundation to explain consumer behaviour in brand choice decision making the evoked set was further conceptualised and expanded by several researchers (Brisoux & Cheron 1990; Howard & Sheth 1969; Mattila & Wirtz 2002; Narayana & Markin 1975; Turley & LeBlanc 1995; Wirtz & Mattila 2003).

Conceptualising earlier research Brisoux and Cheron (1990) have developed and tested a brand categorisation model illustrating routinised response behaviour in extensive and limited problem solving situations (see figure 1.2, p15). Figure 1.2 illustrates that the available set brands are first classified in either the awareness set or the unawareness set. This initial classification is known as the awareness stage. Brands categorised in the awareness set are then either classified as foggy or are considered for further processing. This is known as the processing stage. Processed brands are then placed in either the evoked, rejected, or hold position. The brands in the reject set are considered as unacceptable purchase alternatives. Brands in the hold set are also not considered as purchase alternatives but customers may have a negative, neutral or positive attitude towards them (Brisoux & Cheron 1990). The set of viable choices that remain is known as the "consideration", "choice" or "evoked" set. This reduction in the number of alternatives to a manageable level enables consumers to make a rational choice (Wirtz & Mattila 2003).

While models of evoked, choice or consideration set formation have received considerable attention in consumer research, little research has been conducted for industrial buying situations (Kauffman & Leszcyc 2005). This may seem surprising because organisational buying centres are more likely than consumers to undertake formal and elaborate pre-purchase studies of products, markets, and potential suppliers, and therefore, incur larger and more measurable search and decision costs. Moreover, organisational buying behaviour is often considered to be more consistent with the rational utility maximisation paradigm and, because large monetary transactions are frequent, opportunity costs can be substantial (Kauffman & Leszcyc 2005).

Due to the nature of business-to-business markets it could further be expected that customers would portray high levels of objective knowledge and self-assessed knowledge about alternatives. This knowledge will enhance the development of more refined category structures and facilitate information processing (Wirtz & Mattila 2003). The categories, in the consideration stage, could thus be particularly useful to explain a buyer's intention to continue business with or defect from current business relations.

Given the fewer alternatives in many b2b markets, the awareness set and the consideration set may be identical for some product categories. In others, such as the selection of an advertising agency, the model may be similar for consumers and business-to-business marketers, because of the large number of alternatives. However, there may be other factors, such as company size, where a very large company with a multi-million Rand advertising budget may have only a limited number of choices in any market.

It is the objective of this study to develop and describe the construct of buyer considerations sets from a buyer's perspective when renewing or

terminating a contract with an advertising agency. In this proposed consideration set “brand choice” relates to “agency choice”. The “set of motives”; “alternative brands” and “choice criteria” are customized to match specific requirements, motives and needs applicable to the appointment of advertising agencies. The focus of this study is further not on the awareness and processing stages of the consideration set formulation, as this study focuses on renewal decisions and specifically service contract renewal rather than initial purchase decisions. The focus would therefore be on the consideration and preference stages.

### **4.3 Choice Set Size**

A business buyer is frequently faced with either purchasing something that he/she has not purchased previously or renewing or reviewing a purchase arrangement for an item or service that he/she has purchased before. In either case, it must be decided how many firms to include in the group from which to select the supplier from which to buy. This situation will be referred to as the ‘choice set decision’ and the group of suppliers in the selection group are referred to as the ‘choice set’. Market conditions and purchasing practice sometimes simplify the choice set decision. For example, there may be only one or a few possible suppliers for particular requirements or single sourcing or supplier prequalification may predetermine or limit the size of the choice set. Present trends towards buyer-seller partnerships and alliances, fewer vendors and single sourcing have however not eliminated the need for determining choice sets. In fact, the potential impact of a poorly configured choice set in these instances, is much greater compared to an individual transaction situation as fewer suppliers provide larger proportions of supply, usually with multiyear contracts (Kauffman & Leszcyc 2005). In the case of the selection of advertising agencies purchases are unique or highly specialized which

may lead to high search and decision costs (Kauffman & Leszczyc 2005).

Currently studies estimate the average size of choice sets in business markets to be between three and four (Crow, Olshavsky & Summers 1980; Kauffman & Leszczyc 2005; Vyas & Woodside 1984). Evoked set sizes of services are similar to those of durable goods. Consumers appear to eliminate most service providers early in the decision process and spend most of their cognitive or mental energies seriously evaluating a very small group, usually about two services (Turley & LeBlanc 1995). Attribute and price differences between potential suppliers, and/or costs to find and qualify suppliers could, however, vary sufficiently and thus justify choice sets larger than the three or four that are currently commonly used (Kauffman and Leszczyc 2005). No literature could be found that provided prescriptions pertaining to the size of choice sets for the appointment of advertising agencies. Prescriptions set by the ACA limit the number of agencies to pitch for an account to four (ACASA 2006). This study will investigate if suitable agencies were available to pitch for an account but will not report on the number of a typical 'choice set'.

#### **4.4 The Conceptualisation of a Consideration Set Suitable for the Advertising Industry**

Generally, a buyer is faced with two key decisions: (1) a consideration decision and (2) a choice decision (Heide & Weiss 1995). With respect to choice, the focus here is on a buyer's decision whether to switch to a new agency or to remain with an existing one. This study will observe the choice between two primary alternatives, to renew or not to renew the contract. It is envisaged that the proposed research will match the

evoked set with salient features or criteria leading to a rational choice from among the viable alternatives.

In order to achieve this, a heuristic model (see figure 4.1) was developed illustrating the proposed consideration set formulation process applicable to the appointment of an advertising agency. This model is the result of the contextualisation of the literature, discussed in this review, to the advertising industry. Considering the preceding literature review the consideration set is based on the constructs of 'rules and norms of exchange', the 'offer of exchange' and the 'relationship of exchange'. Agencies that are included into the consideration set are evaluated against these constructs resulting into buyers either rejecting agencies or placing the agencies in an evoked set. It is from this evoked set that a supplier will be appointed.

The identified constructs are informed by various antecedents as established within the literature review. Antecedents and constructs are treated as independent variables of this study, whereas the consideration set represents the dependent variable.

In order to conclude this chapter, as well as the literature review, the company specific procurement processes as well as independent variables will be summarised. This summary will highlight the appropriate definitions and present the relevant antecedents and measurement items. It is important to note that the measurement items will be refined and developed through the research process, pre-tested in the specific context of this research to insure nomological, discriminant, convergent, and face validity of the measurement instrument. It is further very likely that the scales with large numbers of items will be trimmed to a more practical level in pre-testing as

discussed in chapter 5. Lastly, this summary will inform the research questionnaire and methodology.

#### **4.4.1 Procurement Process**

Although not presented in Figure 4.1, it is important to note that the organisational buying (procurement) process may influence consideration set formulation (see section 2.2.2.1, p35). This process is not included in the heuristic model as it is often dynamic and complicated and mostly regarded as company specific. However, certain aspects of a firm's buying activities are deemed relevant to this study (see table 2.2, p36). In this regard, it was established that situational characteristics (see section 2.2.2.1a, p36) are the underlying antecedents that inform the level of dependency (an existing antecedent of the heuristic model). Buying activities such as (1) search for information, (2) use of analysis techniques and (3) procedural control (see section 2.2.2.1b, p39) should however be included in the study to confirm the buying decision approach. Therefore, this summary will highlight the appropriate definitions and present relevant measurement items for the mentioned antecedents.

##### ***I. Search for information***

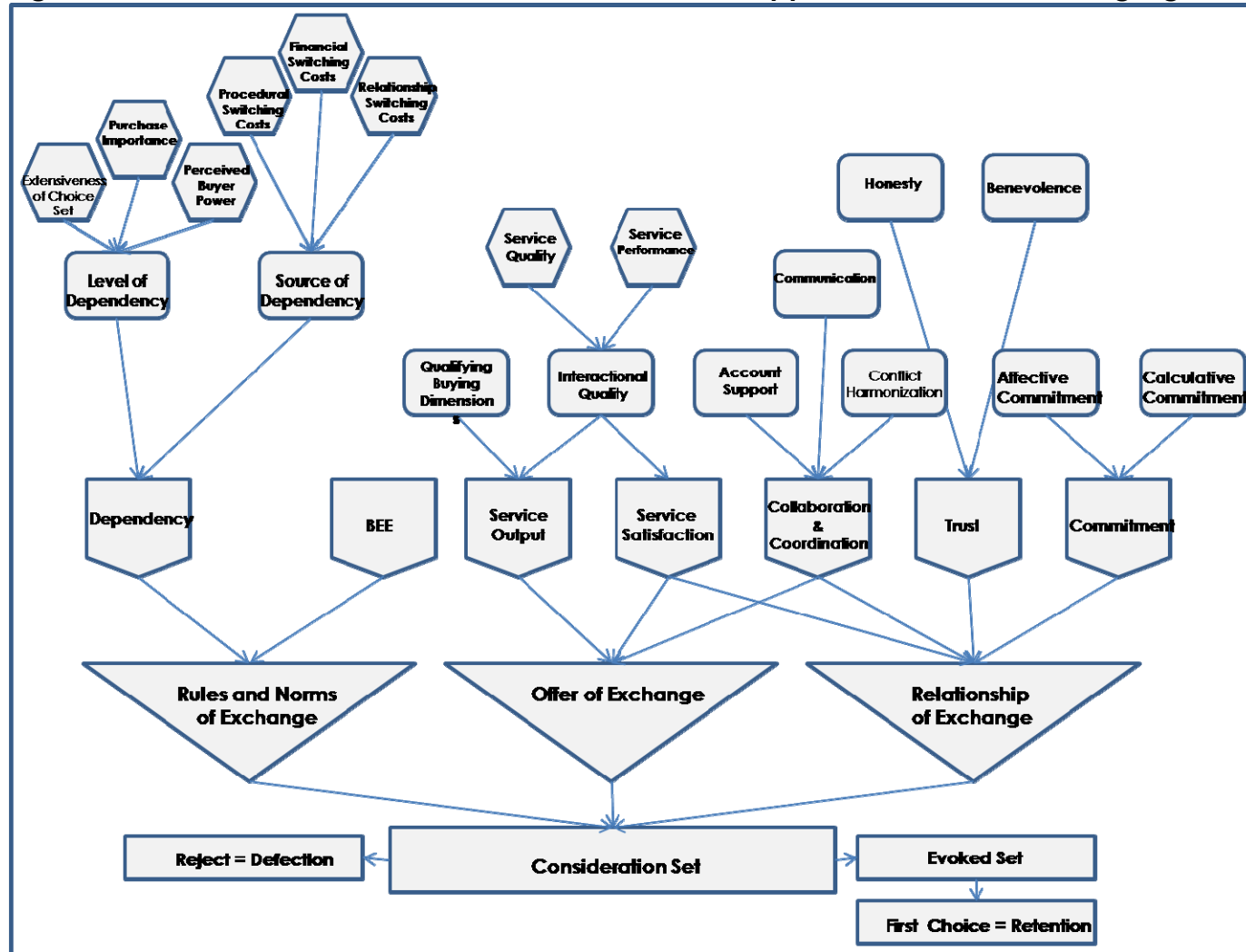
**Definition:** “The buyer's effort at scanning the internal and external business environment to identify and monitor information sources relevant to the focal buying decision” (Hunter, Bunn & Perreault Jr. 2006:157).

##### ***II. Use of analysis techniques***

**Definition:** “The extent to which the buyer makes use of formal and/or quantitative tools to objectively evaluate aspects of the buying decision” (Bunn 1993:42).



Figure 4.1 Heuristic Model - Consideration Set for the Appointment of Advertising Agencies



### *III. Procedural control*

**Definition:** “The extent to which the evaluation of a buying decision is guided by previous experience – including established policies, procedures, or transaction norms” (Hunter, Bunn & Perreault Jr. 2006:157).

Lastly, with reference to the procurement process, it is important to take cognisance of a firm's structural arrangements (see section 2.2.2.1c, p40) as these arrangements may influence the manner in which information is processed. This study will aim to identify the different members of the buying centre in order to understand who participates in the agency appointment decision.

Table 4.1 summarises the measures of buying activities. This summary includes the appropriate antecedents, reliable measurement items, scales and response cues as reported by established researchers in related studies.

**Table 4.1 Measures of Buying Activities**

<b>Antecedent</b>	<b>Response Cues</b>
Search for Information <i>Construct reliability: 0.84</i>	(1) "Not at all" to (7) "Very much"
Measured by four items based on scales reported by Hunter, Bunn and Perreault Jr. (2006).	
When the current advertising agency was appointed: <ol style="list-style-type: none"> <li>1. To what extent did you or others specifically search for information of the reliability of possible suppliers?</li> <li>2. To what extent did you or others specifically search for information on capabilities of suppliers?</li> <li>3. To what extent did you or others specifically search for information on the level of quality required?</li> <li>4. To what extent did you or others specifically search for information on the alternative sources of supply?</li> </ol>	
<b>Antecedent</b>	<b>Response Cues</b>
Formal Analysis <i>Construct reliability: 0.73</i>	(1) "Not at all" to (7) "Very much"
Measured by four items based on scales reported by Hunter, Bunn and Perreault Jr. (2006).	
When the current advertising agency was appointed: <ol style="list-style-type: none"> <li>1. To what extent was economic analysis used?</li> <li>2. To what extent was value analysis used?</li> <li>3. To what extent was cost analysis used on this appointment?</li> <li>4. To what extent was spread sheet analysis used on this purchase?</li> </ol>	
<b>Antecedent</b>	<b>Response Cues</b>
Procedural Control <i>Construct reliability: 0.79</i>	(1) "Strongly disagree" to (7) "Strongly agree"
Measured by four items based on scales reported by Hunter, Bunn and Perreault Jr. (2006).	
When we appointed our current advertising agency: <ol style="list-style-type: none"> <li>1. We did not have an established way of appointing an advertising agency.</li> <li>2. We did not have clear cut rules about how to make this purchase.</li> <li>3. Responsibility was not clearly defined for the accomplishment of each step of the appointment procedure.</li> <li>4. When the need arose there were no existing guidelines about how to fill it.</li> </ol>	

#### 4.4.2 Rules and Norms of Exchange

Rules and norms of exchange form the guidelines of the exchange process and are the result of expectations of reciprocity or formal negotiations (see section 3.4.1, p77). Antecedents informing this construct were identified as dependency, switching barriers and regulatory imposed regulations. Therefore, this summary will highlight the appropriate definitions and present relevant measurement items for the mentioned antecedents.

#### **4.4.2.1 Level of Dependency**

Dependence of a buyer on a seller refers to a buyer's need to maintain the relationship in order to achieve desired goals (Ganesan 1994). The level of dependency is determined by the extensiveness of the choice set; the purchase importance and the perceived buyer power (see section 2.2.2.1a, p36 and section 3.4.1.1.a, p78).

##### ***I. Extensiveness of the choice set***

**Definition:** "The number of alternatives that are potentially able to meet the purchasing need" (Hunter, Bunn & Perreault Jr. 2006:158).

##### ***II. The purchase importance***

**Definition:** "The impact of a purchase on organisational operation, profitability and productivity" (Lau, Goh & Lei 1999: 578).

##### ***III. Perceived buyer power***

**Definition:** "The profitability and attractiveness of a sale to the buying firm by one or more suppliers and the suppliers' desire for the customer's business" (Hunter, Bunn & Perreault Jr. 2006:158).

Table 4.2 summarises the measures of the level of dependency. This summary includes the appropriate antecedents, reliable measurement items, scales and response cues as reported by established researchers in related studies.

**Table 4.2 Measures of the Level of Dependency**

<b>Antecedent</b>	<b>Response Cues</b>
Extensiveness of the Choice Set <i>Construct reliability: 0.84</i>	(1) "Strongly disagree" to (7) "Strongly agree"
Measured by four items based on scales reported by Hunter, Bunn and Perreault Jr. (2006).	
When the current advertising agency was appointed: <ol style="list-style-type: none"> <li>1. We were able to choose from among many agencies.</li> <li>2. There were many agencies who could have supplied what we need.</li> <li>3. There were many agencies that would have been suitable for this appointment.</li> <li>4. When it came to selecting the specific agency, there were not many options.</li> </ol>	
<b>Antecedent</b>	<b>Response Cues</b>
Purchase Importance <i>Construct reliability: 0.78</i>	(1) "Strongly disagree" to (7) "Strongly agree"
Measured by four items based on scales reported by Hunter, Bunn and Perreault Jr. (2006).	
When the current advertising agency was appointed: <ol style="list-style-type: none"> <li>1. Our advertising expenditure was a major financial commitment to our organisation.</li> <li>2. Compared to other expenditures, high level approval was required.</li> <li>3. Our advertising activities influenced many aspects of our organisation.</li> <li>4. Considering all of the purchases that I am involved in, this one was not very important.</li> </ol>	
<b>Antecedent</b>	<b>Response Cues</b>
Buyer Power <i>Construct reliability: 0.79</i>	(1) "Strongly disagree" to (7) "Strongly agree"
Measured by four items based on scales reported by Hunter, Bunn and Perreault Jr. (2006).	
When the current advertising agency was appointed: <ol style="list-style-type: none"> <li>1. Agencies were really competing to make this sale to us.</li> <li>2. We had much bargaining power in this appointment.</li> <li>3. The agency was really motivated in making the sale to us.</li> <li>4. The agency we chose gave us a much better deal than most of their customers.</li> </ol>	

#### 4.4.2.2 Switching Barriers

Switching barriers represent any factor, which makes it more difficult or costly for consumers to change providers (Jones, Mothersbaugh & Beatty 2000). This study will consider switching barriers based on procedural, financial and relationship switching costs (see section 3.4.1.2.1, p81).

##### a. Procedural switching costs

Procedural switching costs consist of economic risks, evaluation, learning, and setup costs (see section 3.4.1.2.1a /, p83). It primarily involves the expenditure of time and effort and is dependent on

product complexity and the heterogeneity of providers in the market (Burnham Frels & Mahajan 2003).

*I. Economic risk cost*

**Definition:** The costs of accepting uncertainty with the potential for a negative outcome when adopting a new provider about which the consumer has insufficient information (Burnham, Frels & Mahajan 2003).

*II. Evaluation costs*

**Definition:** The time and effort costs associated with the search and analysis needed to make a switching decision (Burnham, Frels & Mahajan 2003).

*III. Learning costs*

**Definition:** The time and effort costs of acquiring new skills or know-how in order to use a new product or service effectively (Burnham, Frels & Mahajan 2003).

*IV. Setup Costs*

**Definition:** The time and effort costs associated with the process of initiating a relationship with a new provider or setting up a new product for initial use (Burnham, Frels & Mahajan 2003).

**b. Financial switching costs**

According to Burnham, Frels and Mahajan (2003) financial switching costs consist of benefits loss and financial-loss costs. This type of switching cost involves the loss of financially quantifiable resources (see section 3.4.1.2.1a//, p85).

*I. Benefit loss costs*

**Definition:** The costs associated with contractual linkages that create economic benefits for staying with an incumbent firm (Burnham, Frels & Mahajan 2003).

## *II. Monetary loss costs*

**Definition:** The onetime financial outlays that are incurred in switching providers other than those used to purchase the new product itself (Burnham, Frels & Mahajan 2003).

### **c. Relationship switching costs**

Relationship switching costs (see section 3.4.1.2.1a///, p85) consist of personal relationship loss and brand relationship loss costs. This type of switching cost involves psychological or emotional discomfort due to the loss of identity and breaking of bonds (Burnham, Frels & Mahajan 2003).

#### *I. Personal relationship loss costs*

**Definition:** The affective losses associated with breaking the bonds of identification that have been formed with the people with whom the customer interacts (Burnham, Frels & Mahajan 2003).

#### *II. Brand relationship loss costs*

**Definition:** The affective losses associated with breaking the bonds of identification that have been formed with the brand or company with which the customer has associated (Burnham, Frels & Mahajan 2003).

Table 4.3 summarises the measures of switching barriers. This summary includes the appropriate antecedents, reliable measurement items, scales and response cues as reported by established researchers in related studies.

**Table 4.3 Measures of Switching Barriers**

<b>Antecedent</b>	<b>Sample Item</b>
Switching Barriers <i>Construct reliability: 0.87</i>	Economic Risk Costs Response cues: (1) "Strongly disagree" to (7) "Strongly agree"
Measured by six items based on scales reported by Burnham, Frels and Mahajan (2003).	
<ol style="list-style-type: none"> <li>1. I worry that the service offered by other agencies won't work as well as expected.</li> <li>2. If I try to switch advertising agencies, I might end up with bad service for a while.</li> <li>3. Switching to a new advertising agency will probably involve hidden costs/charges.</li> <li>4. I am likely to end up with a bad deal financially if I switch to a new advertising agency.</li> <li>5. Switching to a new advertising agency will probably result in some unexpected hassle.</li> <li>6. I don't know what I'll end up having to deal with while switching to a new advertising agency.</li> </ol>	
<b>Antecedent</b>	<b>Sample Item</b>
Switching Barriers <i>Construct reliability: 0.83</i>	Evaluation Costs Response cues: (1) "Strongly disagree" to (7) "Strongly agree"
Measured by four items based on scales reported by Burnham, Frels and Mahajan (2003).	
<ol style="list-style-type: none"> <li>1. I cannot afford the time to get the information to fully evaluate other advertising agencies.</li> <li>2. How much time/effort does it take to get the information you need to feel comfortable evaluating new advertising agencies? [<i>Very little (1) to A lot(7)</i>]</li> <li>3. Comparing the benefits of my advertising agency with the benefits of other agencies takes too much time/effort, even when I have the information.</li> <li>4. It is tough to compare the other advertising agencies.</li> </ol>	
<b>Antecedent</b>	<b>Sample Item</b>
Switching Barriers <i>Construct reliability: 0.85</i>	Learning Costs Response cues: (1) "Strongly disagree" to (7) "Strongly agree"
Measured by three items based on scales reported by Burnham, Frels and Mahajan (2003).	
<ol style="list-style-type: none"> <li>1. There is not much involved in understanding the operations of a new advertising agency well.</li> <li>2. Even after switching, it would take effort to "get up to speed" with the new advertising agency.</li> <li>3. Getting used to how another advertising agency work would be easy.</li> </ol>	
<b>Antecedent</b>	<b>Sample Item</b>
Switching Barriers <i>Construct reliability: 0.80</i>	Set-Up Costs Response cues: (1) "Strongly disagree" to (7) "Strongly agree"
Measured by four items based on scales reported by Burnham, Frels and Mahajan (2003).	
<ol style="list-style-type: none"> <li>1. It takes time to go through the steps of switching to a new advertising agency.</li> <li>2. Switching advertising agencies involve an unpleasant sales process.</li> <li>3. The process of starting up with a new agency is easy/quick.</li> <li>4. There are a lot of formalities involved in switching to a new advertising agency.</li> </ol>	



**Table 4.3 Measures of Switching Barriers (Continue)**

<b>Antecedent</b>	<b>Sample Item</b>
Switching Barriers <i>Construct reliability: 0.76</i>	Benefit Loss Costs Response cues: (1) "Strongly disagree" to (7) "Strongly agree"
Measured by two items based on scales reported by Burnham, Frels and Mahajan (2003).	
<ol style="list-style-type: none"> <li>1. Switching to a new advertising agency would mean losing or replacing credits, services, and so on that I have accumulated with my advertising agency.</li> <li>2. I will lose benefits of being a long-term customer if I leave my advertising agency.</li> </ol>	
<b>Antecedent</b>	<b>Sample Item</b>
Switching Barriers <i>Construct reliability: 0.71</i>	Monetary Loss Costs Response cues: (1) "Strongly disagree" to (7) "Strongly agree"
Measured by one item based on a scale reported by Burnham, Frels and Mahajan (2003).	
1. Switching to a new advertising agency would involve some up-front costs.	
<b>Antecedent</b>	<b>Sample Item</b>
Switching Barriers <i>Construct reliability: 0.85</i>	Personal Relationship Loss Costs Response cues: (1) "Strongly disagree" to (7) "Strongly agree"
Measured by four items based on scales reported by Burnham, Frels and Mahajan (2003).	
<ol style="list-style-type: none"> <li>1. I would miss working with the people at my advertising agency if I switched providers.</li> <li>2. I am more comfortable interacting with the people working for my advertising agency than I would be if I switched service suppliers.</li> <li>3. The people where I currently get my service matter to me.</li> <li>4. I like talking to the people where I get my service.</li> </ol>	
<b>Antecedent</b>	<b>Sample Item</b>
Switching Barriers <i>Construct reliability: 0.70</i>	Brand Relationship Loss Costs Response cues: (1) "Strongly disagree" to (7) "Strongly agree"
Measured by three items based on scales reported by Burnham, Frels and Mahajan (2003).	
<ol style="list-style-type: none"> <li>1. I like the public image of my advertising agency.</li> <li>2. I support my advertising agency as a firm.</li> <li>3. I do not care about the brand/company name of my advertising agency.</li> </ol>	

#### 4.4.2.3 Black Economic Empowerment

Government defines Black Economic Empowerment (BEE) as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the number of black people that manage, own and control South Africa's economy, as well as significant decreases in income inequalities (Department of Trade and

Industry 2006/1) - see section 3.4.1.2.2 (p86). This study will use the Marketing, Advertising and Communication Scorecard to identify appropriate measures of BEE compliance as no other established measurement items could be found.

Table 4.4 summarises the measures of BEE. This summary includes the appropriate antecedents, reliable measurement items, scales and response cues as reported by established researchers in related studies.

**Table 4.4 Measures of Black Economic Empowerment**

<b>Antecedent</b>	<b>Response Cues</b>
Black Economic Empowerment	(1) Very Important – (7) Not important at all
Measured by core components identified in the Marketing, Advertising and Communication Scorecard.	
When the current advertising agency was appointed: <ol style="list-style-type: none"> <li>1. We considered the race composition represented in the ownership of this agency.</li> <li>2. We considered the race composition represented in the management of this agency.</li> <li>3. We considered the employment equity policy of this agency.</li> <li>4. We considered the actual employment equity numbers of this agency.</li> <li>5. BEE accreditation is a pre-requisite of our procurement policies.</li> </ol>	

#### **4.4.3 Offer of Exchange**

Offer of exchange determines factors which advertisers use to assess the capabilities of current or prospective agencies in the selection or evaluation process (see section 3.4.2, p91). This study considers service output and service satisfaction as underlying antecedents to this construct.

##### **4.4.3.1 Service Output**

In order to remain competitive, agencies are recommended to provide an appropriate range of services that are valued by clients, successfully manage their account teams and charge competitive rates (Palihawadana and Barnes 2005) - see section 3.4.2.1a (p92). To establish the relevance and importance of these qualifying dimensions

this study will consider the importance and relevance of selection attributes as presented in Table 3.2 (p95).

Determining antecedents for service output were identified as service quality and service performance. It is important to note that meeting client expectation of service quality is not straightforward due to the evolving interaction between service providers and their clients. Service quality performance of agencies is thus based on interaction quality measurement dimensions, illustrated in Table 3.2.

*I. Service quality*

**Definition:** The totality of features and characteristics of a service that bears on its ability to satisfy stated or implied needs (Cyndee 1993).

*II. Service performance*

**Definition:** The quality level at which the product's or service's primary characteristics operate (Kotler & Keller 2006).

Table 4.5 summarises the measures of qualifying buying dimensions. This summary includes the appropriate antecedents, reliable measurement items, scales and response cues as reported by established researchers in related studies.

**Table 4.5 Measures of Qualifying Buying Dimensions**

Antecedent	Response Cues
Selection Attributes	(1) "Critical" to (7) "Not considered"
Measured by 15 items based on scales developed by Palihawadana and Barnes (2005).	
<p>In the selection of an advertising agency, please indicate the importance of the following attributes:</p> <ol style="list-style-type: none"> <li>1. Professional/technical skills</li> <li>2. Quality of ad agency service</li> <li>3. Level of creativity</li> <li>4. Level of service during pitching</li> <li>5. Previous successful campaign record</li> <li>6. Quality of client care</li> <li>7. Reputation</li> <li>8. Price</li> <li>9. Compatible personality traits</li> <li>10. Right size</li> <li>11. Previously held competitive accounts</li> <li>12. Geographic proximity</li> <li>13. Directives from head office</li> </ol>	

Table 4.6 summarises the measures of interactional quality. This summary includes the appropriate antecedents, reliable measurement items, scales and response cues as reported by established researchers in related studies.

**Table 4.6 Measures of Interactional Quality**

Antecedent	Response Cues
Interactional Quality	(1) "Strongly disagree" to (7) "Strongly agree"
Measured by nine items based on scales reported by Davies and Palihawadana (2006).	
<p>Based on your overall experience, you expect:</p> <ol style="list-style-type: none"> <li>1. Integrity when advice are offered</li> <li>2. Proactivity in generating new ideas</li> <li>3. Correct interpretation of our briefing</li> <li>4. Access to number of creative teams</li> <li>5. Stability of key account management</li> <li>6. Consistent work processes</li> <li>7. Empathy to creative changes</li> <li>8. Constant information on account status</li> <li>9. Strength in strategic thinking</li> </ol>	

#### **4.4.3.2 Service Satisfaction**

Service satisfaction is closely associated with service quality and performance. Satisfaction with service output and performance (after consumption) will thus be considered in order to determine the role thereof to buyer consideration set formulation. Satisfaction

measurement will however be expanded to include satisfaction with the relationship.

**Definition:** Consumer satisfaction is a response pertaining to a particular focus at a particular time.

Table 4.7 summarises the measures of satisfaction. This summary includes the appropriate antecedents, reliable measurement items, scales and response cues as reported by established researchers in related studies.

**Table 4.7 Measures of Satisfaction**

Antecedent	Response Cues
Satisfaction	(1) "Not satisfied at all" to (7) "Extremely satisfied"
Measured by 20 scales developed by Palihawadana and Barnes (2005) and Davies and Palihawadana (2006).	
Based on your overall experience with your appointed advertising agency how satisfied are you with;	
<ol style="list-style-type: none"> <li>1. The professional/technical skills</li> <li>2. Quality of ad agency service</li> <li>3. Level of creativity</li> <li>4. Quality of client care</li> <li>5. Price</li> <li>6. Compatible personality traits</li> <li>10. Integrity when advice are offered</li> <li>11. Proactivity in generating new ideas</li> <li>12. Correct interpretation of briefings</li> <li>13. Access to number of creative teams</li> <li>14. Stability of key account management</li> <li>15. Consistent work processes</li> <li>16. Empathy to creative changes</li> <li>17. Constant information on account status</li> <li>18. Strength in strategic thinking</li> <li>19. The compatibility of working styles between the agency and your company</li> <li>20. Compliance to budget limitations</li> </ol>	

#### 4.4.4 Exchange Relationship

Relationships refer to an association between interacting parties (whether individuals or institutions) (Cropanzano & Mitchell 2005). Antecedents underlying exchange relationship were identified as

commitment, trust, collaboration and cooperation and satisfaction (see section 3.4.3, p97).

#### 4.4.4.1 Commitment

**Definition:** The belief of an exchange partner that the ongoing relationship with another is so important that it warrants maximum effort to maintain the relationship indefinitely (Morgan & Hunt 1994) 3.4.3.1 (p98).

Different motivations underlying this intention create two types of commitment namely affective commitment and calculative commitment. Both types of commitment types will be considered in this study. Table 4.8 summarises the measures of commitment. This summary includes the appropriate antecedents, reliable measurement items, scales and response cues as reported by established researchers in related studies.

**Table 4.8 Measures of Commitment**

Antecedent	Response Cues
Commitment Intention <i>Construct reliability: 0.895</i>	(1) "Strongly disagree" to (7) "Strongly agree"
Measured by two items based on scales reported by Morgan and Hunt (1994)	
The relationship that my firm has with this agency: 1. Is something we are very committed to. 2. Deserves our firm's maximum effort to maintain.	
Antecedent	Response Cues
Affective Commitment	(1) "Strongly disagree" to (7) "Strongly agree"
Measured by three items based on scales reported by Gounaris (2005)	
We stay in a relationship with our agency because: 1. We enjoy working together. 2. Our philosophy matches. 3. We are loyal.	
Antecedent	Response Cues
Calculative Commitment	(1) "Strongly disagree" to (7) "Strongly agree"
Measured by one items based on scale reported by De Ruyter, Moorman and Lemmink (2001).	
We stay in a relationship with our agency because: 1. There is just too much time, energy, and expense involved in terminating our relationship with the agency.	

#### 4.4.4.2 Trust

**Definition:** “The confidence of the exchange actors in the goodwill of each other” (Gounaris 2005:128) – see section 3.4.3.2, p99).

Trust encompasses two essential elements – trust in the partner’s honesty or credibility and trust in the partner’s benevolence. These two elements will form the underlying antecedents of trust in this study.

Table 4.9 summarises the measures of trust. This summary includes the appropriate antecedents, reliable measurement items, scales and response cues as reported by established researchers in related studies.

**Table 4.9 Measures of Trust**

Antecedent	Sample Item
Trust	Honesty <i>Construct reliability: 0.81</i> Response cues: (1) “Strongly disagree” to (7) “Strongly agree”
Measured by one item based on a scale reported by Geyskens, Steenkamp, Scheer and Kumar (1996).	
1. Our organisation can count on the supplier to be sincere.	
Antecedent	Sample Item
Trust	Benevolence <i>Construct reliability: 0.90</i> Response cues: (1) “Strongly disagree” to (7) “Strongly agree”
Measured by one item based on a scale reported by Geyskens, Steenkamp, Scheer and Kumar (1996).	
1. When making important decisions, the agency is concerned about our welfare.	

#### 4.4.4.3 Collaboration and Coordination

Inter-organisational collaboration focuses on sharing of information, joint development of strategic plans and synchronizing operations (Daugherty, Richey, Roach, Min, Chen, Arndt & Genchev 2006) – see section 3.4.3.3 (p101). It is important to note that collaboration and cooperation are sometimes used interchangeably. This study will consider collaboration/coordination as well as three relevant

underlying antecedents namely account support, communication, and conflict harmonization.

#### *I. Cooperation*

**Definition:** The similar or complementary coordinated actions taken by firms in interdependent relationships to achieve mutual outcomes or singular outcomes with expected reciprocation over time (Anderson & Narus 1990).

#### *II. Collaboration*

**Definition:** A coordinated, synchronous activity that is the result of a continued attempt to construct and maintain a shared conception of a problem (Dillenbourg, Baker, Blaye & O'Malley 1995).

#### *III. Account support*

**Definition:** The personal relationships between boundary spanning functions of account and sales management (De Ruyter, Moorman & Lemmink 2001) – see section 3.4.3.3a (p102).

#### *IV. Communication*

**Definition:** The formal as well as informal sharing of meaningful and timely information between firms (Anderson & Narus 1990) – see section 3.4.3.3b (p103).

#### *V. Conflict harmonization*

**Definition:** Reaching mutually acceptable compromises without having to resort to formal procedures (DeRuyter, Moorman & Lemmink 2001) – see section 3.4.3.3c (p103).

Table 4.10 summarises the measures of collaboration/coordination. This summary includes the appropriate antecedents, reliable measurement items, scales and response cues as reported by established researchers in related studies.



**Table 4.10 Measures of Collaboration/Coordination**

<b>Construct</b>	<b>Response Cues</b>
Account Support	(1) "Strongly disagree" to (7) "Strongly agree"
Measured by ten items on the base of four items based on scales reported by Cagley and Roberts (1984); three items based on scales reported by Ganesan (1994) and two items based on scales reported by Daugherty, Richey, Roach, Min, Chen, Arndt and Genchev (2006).	
<ol style="list-style-type: none"> <li>1. We are satisfied with the quality of the people assigned to the account.</li> <li>2. There are complete agreement between the agency and our goals and objectives.</li> <li>3. Our advertising agency's personnel need to thoroughly learn the characteristics of our business.</li> <li>4. The agency is willing to make recommendations and/or object to our decisions when they believe them to be wrong.</li> <li>5. This agency's representatives are frank in dealing with our company.</li> <li>6. Promises made by the agency are reliable.</li> <li>7. Our advertising agency has tailored its products/services and procedures to meet our specific needs.</li> <li>8. Our company and advertising agency include each other in formal business planning meetings.</li> <li>9. Our company and our advertising agency share relevant cost information.</li> </ol>	
<b>Construct</b>	<b>Response Cues</b>
Communication	(1) "Strongly disagree" to (7) "Strongly agree"
Measured by four items on the bases of scales reported by Daugherty, Richey, Roach, Min, Chen, Arndt and Genchev (2006).	
<ol style="list-style-type: none"> <li>1. Communication between our company and the agency takes place frequently.</li> <li>2. The basic terms of our relationship have been explicitly verbalised and discussed.</li> <li>3. The terms for sharing information between our companies have been explicitly verbalised and discussed.</li> <li>4. We share proprietary information with each other.</li> </ol>	
<b>Construct</b>	<b>Response Cues</b>
Conflict Harmonisation	(1) "Strongly disagree" to (7) "Strongly agree"
Measured by five items on the basis of scales reported by Anderson and Narus (1990).	
<ol style="list-style-type: none"> <li>1. Disagreement between our advertising agency and our firm have considerably increased the productivity of our working relationship</li> <li>2. Disagreement between our advertising agency and our firm have considerably decreased the productivity of our working relationship</li> <li>3. Our advertising agency and our company have significant arguments in our working relationship</li> <li>4. Our advertising agency tends to give us the "benefit of the doubt" in conflict situations</li> <li>5. Conflict is seen as a "productive discussion" rather than an "argument"</li> </ol>	

## 4.5 Conclusion

This study and literature review argues the importance of customer retention as a strategic mandate in today's service markets. Agencies need now, more than ever, to build strong relationships with advertisers.

Commercial reality demand long and lasting relationships that are beneficial to both parties. Insights into the consideration set formulation of buyers will thus assist all the players in this industry.

Despite considerable research that has focused on the attributes associated with evaluating and selecting advertising agencies, and an emerging body of literature emphasizing customer loyalty and retention, advertising agency-client investigations have often analysed these attributes in isolation.

Chapter 4 presented a heuristic model illustrating the contextualisation of the literature in the preceding chapters to the advertising industry. This chapter further concluded the literature review by means of summarising the antecedents relevant to the formation of a consideration set. Possible measurement items were identified and will inform the research methodology that will be employed for this study.

## **CHAPTER 5**

### **RESEARCH METHODOLOGY**

## 5.1 Introduction

This chapter considers the type of research and design used in this study and provides a rationale for this selection. The research design reflects the philosophy of science held by the researcher and was determined by the type of research question (Neuman 2003). The research question guiding this design was: *“What are the interrelationships between buyer and seller exchanges and customer retention from the viewpoint of the buyer/client in the South African advertising industry?”*

In order to answer the research question the objectives of this research were to synthesise the retention literature and empirically explore the theoretical structure of this concept in order to provide a holistic and integrative perspective to client retention. To achieve this, the research design was primarily a quantitative study, reflecting the positivist paradigm.

There were three stages in this research and the first two stages were used in a secondary role. Firstly, literature was reviewed to develop concepts, to establish priorities, develop operational definitions and improve the final research design. Secondly, ideas were consolidated to develop a heuristic model to illustrate interrelationships between various variables and constructs leading to retention. The third phase of the research, namely to test the variables of retention empirically, is the focus of this chapter.

This chapter will therefore describe all the facets of the research conducted. These facets include the methodology undertaken in relation to justification of the research paradigm, research design,

questionnaire design, sampling process and data collection, administration and methods for analysis.

## **5.2 Research Scope**

The research scope summarises the focus of this study. As the research methodology and design are determined by the research aim, question and objectives this section set the foundation of the remainder of the chapter.

### **5.2.1 Aim of the Research**

This thesis argues the importance of customer retention as a strategic mandate in today's service markets and considers the advertising industry in order to gain a better understanding of business relationships with specific reference to agency replacement considerations.

Advertising agency-client investigations have mostly only focused on the attributes associated with evaluating and selecting advertising agencies and in many instances these investigations have analysed these attributes in isolation. The need therefore exists to consider retention from a holistic and integrative view.

The outcome of this study will provide marketers and academics with the items and dimensions necessary to construct a consideration set used by clients for agency replacement. This set will describe retention from a holistic and integrative perspective and will therefore afford a new perspective to customer retention. Indeed, this consideration set can provide clients with insights with regards to procurement decisions and supplier management. It can also provide valuable insight to agencies with regard to customer retention management.

**The focus of this research therefore, is to develop and describe the construct of buyer consideration sets, in order to gain a better understanding of business relationships with a specific reference to agency replacement considerations in the South African advertising industry.**

The overall research question to be answered is: **What are the interrelationships between buyer and seller exchanges and customer retention from the viewpoint of the buyer/client in the South African advertising industry?**

### **5.2.2 Objectives of the Research**

Attempting to determine the variables of retention is a critical topic for both marketing academics and practicing marketers. There is no disputing the fact that retention literature remains highly fragmented. This thesis will synthesise the retention literature and empirically explore the theoretical structure of this concept. The objectives of this research are to:

- 5.2.2.1      Review the literature to develop concepts for clearly established priorities, develop operational definitions and improve the final research design.<sup>5</sup>
- 5.2.2.2      Consolidate the ideas to develop a heuristic model to illustrate interrelationships between various antecedents and constructs leading to retention.
- 5.2.2.3      Identify possible correlations within the heuristic model and develop hypotheses to test these correlations.
- 5.2.2.4      Test the antecedents of retention empirically in order to present a consideration set for agency replacement in the South African advertising industry.

### 5.2.3 Research Hypotheses

As a result of an exhaustive literature review a heuristic model (see figure 4.1, p113) was developed. This model postulates that the clients consider 'rules and norms of exchange', the 'offer of exchange' and the 'relationship of exchange' as driving antecedents for consideration set inclusion. Hypotheses were developed in order to establish if there was indeed a relationship between the antecedents and consideration set inclusion. In the case of this study relational hypotheses were formulated. Hypotheses were one-tailed (or directional) which placed the entire probability on an unlikely outcome into the tail specified by the alternative hypothesis (Cooper & Schindler 2008). In addition, hypotheses that considered the relationship between satisfaction and retention as well as retention and loyalty were formulated.

Hypotheses to be tested:

H<sub>1</sub>: There is a positive relationship between 'rules and norms of exchange' and consideration set inclusion.

H<sub>0</sub><sup>1</sup>: There is no relationship between 'rules and norms of exchange' and consideration set inclusion.

H<sub>2</sub>: There is a positive relationship between 'offer of exchange' and consideration set inclusion.

H<sub>0</sub><sup>2</sup>: There is no relationship between 'offer of exchange' and consideration set inclusion.

H<sub>3</sub>: There is a positive relationship between 'relationship of exchange' and consideration set inclusion.

H<sub>0</sub><sup>3</sup>: There is no relationship between 'relationship of exchange' and consideration set inclusion.

H<sub>4</sub>: There is a positive relationship between client satisfaction and agency retention.

H<sub>0</sub><sup>4</sup>: There is no relationship between client satisfaction agency retention.

H<sub>5</sub>: There is a positive relationship between agency retention and agency loyalty.

H<sub>0</sub><sup>5</sup>: There is no relationship between agency retention and agency loyalty.

The investigative questions to be answered in this study are:

- a) What decision process is applied when advertising agencies are appointed?*
- b) Who is the buying centre for advertising agency appointments?*
- c) What supplier selection criteria are used for advertising agency appointments?*
- d) What are the forces that shape organisational buying behaviour for advertising agencies?*

The first three investigative questions will require descriptive data to provided insight whereas the research question and last investigative question require empirical testing of the heuristic model presented in the previous chapter (figure 4.1, p110).

#### **5.2.4 Research Philosophy**

The research philosophy used in this study reflects the principles of positivism. Positivism occupies the epistemological position that advocates working with an observable social reality. The emphasis is on highly structured methodology to facilitate replication, and the end product can be law-like generations similar to those produced by the physical and natural scientists (Saunders, Lewis & Thornhill 2007). The positivist paradigm appears to dominate the marketing discipline with most of the articles in leading journals using a quantitative approach.

Indeed the use of scientific classification schemata for many marketing theories provides evidence of the positivist paradigm. These classifications include schemata for different types of products, decision making, pricing models and many others (Hunt 1991). Positivist



theories are used in marketing to provide systemised structures capable of explaining and predicting phenomena (Hunt 1991). This study aims to develop an integrated conceptual model presenting a consideration set that illustrates the appropriate criteria clients consider when a decision is made to continue business with an advertising agency. It therefore provides a systemised structure to explain customer retention.

The positivist social science is also associated with many specific social theories. Best known is its linkage to the structural-functional, rational choice, and exchange theory frameworks (Neuman 2003). This study builds on the social exchange theory principles and the principles of economic behavior and motive, stemming from the transactional cost, economic and relational contract theories. These theories were combined to develop a conceptual theoretical model in line with philosophical stance of positivism.

Positivism furthermore sees social science as an organised method for combining deductive logic with precise empirical observations of individual behaviour in order to discover and confirm a set of probabilistic causal laws that can be used to predict general patterns of human activity (Neuman 2003). Phases one and two of this study developed a heuristic model using deductive logic and phase three empirically tested the strengths of the relationships to illustrate the interrelationships between various variables and constructs leading to retention. This was done in line with the positivism paradigm to discover and confirm a consideration set for supplier replacement in order to explain client retention (the research phenomena).

As positivism implies the use of quantitative methods, the adoption of realism, the search for causality and the assumption of determinism

(Hunt 1991) it is seen as an appropriate philosophy to guide the research design.

### **5.3 Research Strategy**

The purpose of the research is to assess phenomena in a new light i.e. to provide a holistic and integrative perspective to client retention. An exploratory study was therefore deemed a valuable means to gain understanding of the research problem (Saunders, Lewis & Thornhill 2007).

The choice of the research strategy was guided by the research question and objectives as well as the philosophical underpinning to this study. A research strategy defines the type of research being conducted and the purpose of it (Page & Meyer 2000). This research study was a combination of pure and applied research. It will thus contribute to the body of knowledge as well as solving some specific investigative questions. Both qualitative and quantitative research methods - the so-called mixed method research - were employed. Because mixed methods research is relatively new in the social and human sciences as a distinct research approach (Creswell 2003), it is useful to convey a basic definition and description of the approach.

A mixed methods approach is one in which the researcher tends to base knowledge claims on pragmatic grounds (e.g. consequence-oriented, problem-centred and pluralistic). It employs strategies of enquiry that involve collecting data either simultaneously or sequentially to best understand research problems. The data collection also involves gathering both numeric information (e.g. on instruments) as well as text information (e.g. on interviews) so that the final database represents both quantitative and qualitative information

(Creswell 2003). There are many different terms used for this approach, such as integrating, synthesis, quantitative and qualitative methods, multi method and multi methodology, but recent writings use the term “mixed methods” (Tashakkori & Teddlie 2003).

This research study based knowledge claims initially on constructive (to seek understanding) grounds. Exploratory research was used to orient the researcher and study. The objective of the exploration was the development of the research problem (Cooper & Schindler 2008). The strategy of enquiry involved the collection of data from an exhaustive literature review and resulted in the development of a heuristic model that formed the basis for the empirical investigation.

Sequentially, knowledge claims was based on pragmatic grounds. The research design used to guide the applied research was a causal study. Causal studies seek to discover the effect that a variable(s) has on another (or others) or why certain outcomes are obtained (Cooper & Schindler 2008).

Causality was established by measuring buyer perspectives using a survey approach. The survey was in the form of in-depth and structured interviews and the results were of a qualitative and quantitative nature. Traditionally, authors have developed theory by combining observations from previous literature, common sense and experience (Eisenhardt 1989). This study combined research from previous literature with empirical evidence to answer research questions.

The research was conducted in three phases. Each of these phases will be discussed with specific reference, where applicable, to the guiding

design strategy, the sampling design, nature of measurement, measurement scales used and the data collection method.

### **5.3.1 Phase One – Exploratory Research**

Exploratory research was used in phase one, in order to develop concepts more clearly, establish priorities, develop operational definitions and improve the final research design.

The first step in the exploratory study was a search for secondary data. Secondary data was obtained from previous research studies, industry reports, conference presentations, popular media, periodicals and academic publications.

Literature was sourced and reviewed under the following themes;

1. Guiding theories i.e. the rational contract theory; social exchange theory; and transaction costs economics.
2. Buying decision behaviour.
3. Industry reviews – the advertising industry.
4. Inter-organisational exchange behaviour.
5. Studies that considered retention as a theme or variable.
6. Evoked or consideration set formulation.

Secondary literature was evaluated and classified as either relevant or irrelevant to the study. Ideas from the relevant literature were synthesised and organised into the relevant themes in order to develop a conceptual consideration set model for the evaluation of advertising agency relationships from the client's perspective. Social exchange theory principles and the principles of economic behavior and motive, stemming from the transactional cost, economic and relational contract theories, were combined to develop a conceptual theoretical model. This model is presented in figure 4.1 (p 110) in

Chapter four. The model postulates that three principle constructs drive the consideration set, namely rules and norms of exchange, offer of exchange and relationship of exchange. These constructs are in turn informed by several antecedents with a proven positive relationship to retention and illustrates the salient choice criteria employed by buyers when renewing advertising agency contracts.

### **5.3.2 Phase Two – Qualitative Research**

Exploratory research was used in this phase to compare the conceptual theoretical model with industry benchmarks and perspectives from advertising agencies.

Insights were obtained from industry experts representing different expertise within the advertising industry. Respondents were selected based on their role and experience within the industry. It was important to meet with a representative from a full service media agency, a full service advertising agency, a specialist agency and lastly the opinion of a respected consultant to the industry was sought. This phase of the research contributed in a secondary role as perspectives and insights gained were used to refine the measurement items and instrument and not to answer research questions or to support or reject the hypotheses.

Four opinion leaders known to the researcher were approached to contribute to this phase of the research. This sample size was deemed appropriate for the purposes of this phase. A judgemental sampling approach was followed to select industry experts to provide perspectives from a supplier point of view in order to align the measurement items with industry requirements. Respondents that participated in a structured interview included:

-

1. Gordon Patterson, Managing Director of Starcom. He has over 25 years of experience in the media industry and is an active and outspoken media professional well-known for his passion for insight/strategy and creativity. He is currently deputy president of ABC and a past chairman and active member of the Advertising Media Forum.
2. Tracy Roberts, Client Service Director of TBWA\Hunt\Lascaris. TBWA\Hunt\Lascaris is a full service internationally aligned agency and have shown significant growth in 2007. She has more than 20 years experience within full service and specialist advertising agencies in various client service capacities. This agency won a number of new accounts including Lotto, Soviet, Skipper Bar, Distell, Nationwide Airlines, Khomanani and Neotel in 2007.
3. Nana Nkosi, Client Service Director of HKLM. She is an outspoken and published expert on transformation within the advertising industry and head the Client Service division of HKLM. HKLM specialises in branding and design but has also recently expanded to offer a wider range of services.
4. Alan Bolon, Managing Partner of APRAIS. He has 17 years of marketing experience and 17 years of advertising experience. APRAIS provides an independent third party perspective about agency/client relationships.

Respondents were interviewed in depth to gather sufficient data to understand their interpretations of client consideration set formulation and decision-making. In these interviews the following aspects were addressed:

- Identification of customers to retain.
- How customer defection is measured.
- How key customer defections are handled.

- Perceived drivers of customer retention with specific reference to buyer seller exchanges.
- The impact of rules and norms, resources, and relationships on customer perception of the relationship as well as choice behaviour.
- Representativeness and suitability of the questions considered for inclusion within the questionnaire.

The perspectives and insights gained in this phase were used to refine the measurement instrument and discussed in Chapter Six. Complete transcriptions of the interviews are available in annexure 6.

### **5.3.3 Phase Three – Quantitative Research**

During the first phase of this study a heuristic model was developed to illustrate interrelationships between various antecedents and constructs. These antecedents and constructs were proposed, in theory, to influence the consideration set of a client/buyer/consumer when renewing a service contract. Models go a little bit further than theories, being a full representation or description of a phenomenon or set of relationships, including statements about the assumptions and interactions in the model (Page & Meyer 2000) which were written up in Chapter Four.

Phase three seek to discover the effect that an antecedent(s) has on another (or others) or why certain outcomes are obtained. This phase comprised of empirical research in order to gather quantitative data.

#### **5.3.3.1 Sample**

This study focused on the advertising industry in South Africa. This sector provided an accessible example of supplier-buyer (agency-advertiser) relationships, where evaluation occurs relatively frequently.

Appointment of agencies is often based on accountable purchasing processes as the size of contracts is mostly substantial, representing high transactional value. Data on the client and agency relationships are further freely available i.e. client account details (value of advertising expenditure, terms of contracts, and agency replacement) as well as details of campaigns. The appointment and replacement of agencies are often discussed and the cause of speculation in the media. Agency reputation is also built on the profiles and successes of clients. The population of this study comprised of South African advertisers that employ advertising agencies for advertising services, including below-the-line activity, media planning and buying. Considering the characteristics of the population this includes any individual or entity employing an advertising agency to call public attention to a product, service, or company by means of paid announcements or other forms of promotion in order to affect perception or arouse consumer desire to make a purchase or take a particular action. When applying this definition to the population it became apparent that the elements included in the population displayed a variety of characteristics. It was therefore important to apply population parameters in order to identify an appropriate sample frame.

The transactional value of contracts provided a useful parameter in this regard. Contracts with a high transactional value assume that agencies would mostly strive to build close and long lasting relationships and that customer retention of these accounts would be of particular importance to agencies. Due to the high transactional cost, it was further to be expected, that advertisers would employ accountable purchasing processes and would therefore undertake formal and elaborate pre-purchase studies. In line with the research objectives and focus of the study the transactional value of the



contract, in terms of advertising spending, was therefore used as a population parameter.

In order to facilitate this process, access was obtained to a database provided by List Perfect. In this regard the database provided a comprehensive list of corporate companies whose advertising budgets exceed R500 000 annually. A minimum of R500 000 was deemed an appropriate population parameter.

The database contained information about 743 companies and provided contact details of different marketing decision makers employed in different positions within these companies. Marketing positions ranged from Marketing Director to Marketing Co-ordinator. These 743 companies were subsequently set as the target population.

The characteristics of the target population complied with the requirements set within the research focus and objectives of this study and were therefore a most suitable sampling frame (Cooper & Schindler 2008). The size of this relevant target population suggested that a census was feasible. The diversity of the advertisers within the sample frame made it difficult to accurately sample from this group.

The size of the target population was decreased after 57 (8%) companies indicated that they did not employ an advertising agency but produce all advertising material and other related services in-house; 12 (2%) companies furthermore indicated that their international head offices are responsible for the appointment and relationship with their advertising agencies. The target population was therefore reduced to 674 companies. 120 respondents submitted their surveys online of which 116 were deemed suitable. The response rate for this survey was therefore 17.8%.

The response rate is deemed sufficient to provide access to a representative portion of the population due to the following reasons:

- a. Considering the profile of the companies included in the target population it should be noted that many of these companies could be classified to operate in the industrial market. Although these companies have an advertising budget exceeding R500 000, advertising is mostly done in-house by marketing departments and not by advertising agencies. The reasons for not appointing agencies include the scope of advertising activities that are mostly limited to a smaller customer base. Advertising is furthermore limited to include more technical and specialised activities such as trade shows, open days, technical expert opinions in trade magazines, and promotional items.
- b. Some companies included in the target population are local subsidiaries of international conglomerates. It could be expected that local operations may not be involved in the appointment or relationship of agencies appointed at group level.

It could therefore be concluded that the target population include sample units not suitable for this study implying that the size of this population could overestimate suitable sample units.

The quality of respondents also contributes to the quality of data obtained. The reason for this being:

- a. The most suitable respondent was selected by the company to participate in this study.
- b. Respondents were mostly appointed in senior positions within their companies and are considered specialists on the topic of this research.
- c. At least 13 of the top 20 Advertisers (Ad Focus 2007) took part in this study. This fact was established by comparing optional e-

mail addresses, obtained from the completed surveys, to that of the respondent database.

The response rate is therefore deemed to be representative of the population.

#### **5.3.3.2 Data Collection Approach**

The first step in the data collection process was to identify relevant respondents. This study was interested in the views and assessments of decision makers who play a leading role in the appointment of advertising agencies and share the goals and risks arising from the decision. This respondent, depending on the company, may occupy the position of Marketing Director, Marketing Manager, Product Manager, Brand Manager or Advertising Manager. These positions may also be known by other titles depending on the organisational structure. It was thus important to establish the appropriate respondent as well as the contact details of the person in question for each of the listed companies.

In order to facilitate this process, access was obtained to a database provided by List Perfect. This company enjoys a unique reputation in the Marketing, Advertising and Communications business for providing the best and most up-to-date databases of the "Who's' Who" in the industry. In this regard the database provided a comprehensive list of corporate companies whose advertising budgets exceed R500 000 annually.

Data available for each record:

- Corporate company name
- Physical address
- Postal address
- Client's telephone and fax address

- Client's e-mail address (where available)
- Decision-makers
- Managers
- Directors
- Marketing Staff
- Product and Brand Managers

The database was used to identify possible respondents as well as the contact details of these respondents. In cases where contact detail was not available companies were contacted telephonically to firstly identify an appropriate respondent and secondly to obtain contact detail of that respondent.

The researcher identified the most senior marketing executive listed for each company and invited that individual to participate in the research study. If the selected respondent did not comply to the participant profile, provided in the invitation, the respondent was requested to provide the details of a suitable respondent within his/her company. These recommended alternative decision makers were subsequently contacted and invited to participate in the study.

#### **5.3.3.3 Survey Participation Invitation**

All respondents received an invitation to participate in the research study. A copy of this invitation is attached as annexure 7 (the follow-up reminder is attached as annexure 8). Respondents were addressed by their first name and invitations were sent directly to the respondent's e-mail address and not as a carbon copy (cc) or blind carbon copy (bcc). The invitation did not include any attachments but provided a hyperlink to the survey available on-line. This was done in order to avoid the e-mail being classified as spam or as a possible virus. The reminder did however include a word attachment as an alternative to complete the survey via e-mail administration. The wording and

content of this invitation was of particular importance to the response rate. In many cases this was the first contact with the respondent and therefore formed the basis of the overall impression of this study and influenced the respondent's participation decision.

The invitation contained the following information:

- The purpose of the study including that the study was part of a Doctoral study as well as the research phenomenon under investigation.
- Affiliations and personal details of the researcher and supervisors.
- The issue of confidentiality and anonymity.
- A proposed respondent profile and an indication of how the respondent was selected.
- Clear instructions on how to participate in the survey as well as an indication of the time required to complete the survey.

Respondents were also offered two options with regard to participation namely participation via an electronic survey administered via email, or via a website.

#### **5.3.3.4 Data Collection via the Survey Approach**

Data was collected with a survey approach. This approach is appropriate as retention or defection is classified as latent variables that can not be directly observed and must therefore be inferred from a group of indicators. In this study retention or defection is based on the consideration set formulation and evaluation by advertisers as indicated in figure 4.1 (p109). This consideration set is informed by various antecedents and constructs in the format of self reported measures. A survey questions respondents and record their responses

for analysis. It is thus the most appropriate data collection method to measure self reported beliefs and behaviours (Emory & Cooper 1991).

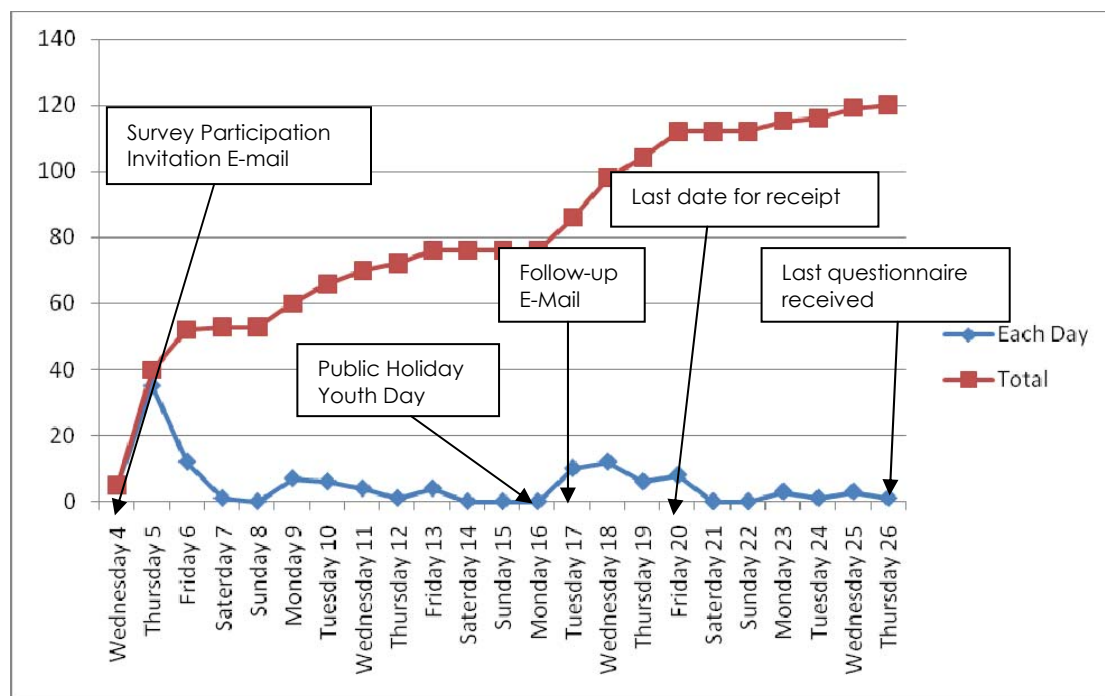
A survey furthermore enables a researcher to study a population sample in order to infer characteristics of a population. Moreover, surveys are one of the most rigorous forms of non-experimental research (Page & Meyer 2000). The great strength of conducting a survey, as a primary data collecting technique, is its versatility (Cooper & Schindler 2008). Indeed, abstract information of all types can be gathered only by questioning others. Questioning is appropriate to gauge opinions, attitudes, intentions and expectations (Emory & Cooper 1991).

In the case of this study respondents were uniquely qualified to provide the desired information by virtue of past experience. The profile of respondents indicates that the respondents are appointed in senior management positions with a high level of responsibility. Limited time and availability are indicative to the group of respondents. As surveys offers versatility, respondents were offered various means to participate in the study which contributed to the high response rate of the respondents. This versatility increased the response rate and executives appreciated the extended effort of the researcher.

As survey research interviews are fairly structured (Leedy & Ormrod 2005), data was collected in this study by means of a structured questionnaire as discussed in the measurement instrument section below.

Data collection milestones are illustrated in figure 5.1 below. The survey was administrated over two and a half weeks (from 4 June 2008 until 20 June 2008). The last questionnaire was received on 26 June 2008.

**Figure 5.1 Daily and Total Number of Questionnaires Returned**



The measurement instrument and questionnaire administration are discussed in the next section.

#### **5.3.3.4.1 Measurement Instrument**

Data was acquired by means of structured questionnaires administered via a web based survey. The questionnaire was designed to achieve three goals: Firstly, to maximize the relevance and accuracy of the data; secondly, to maximize the participation and cooperation of target respondents and lastly to facilitate the collection and analysis of the data. The questionnaire was also designed with close adherence to theoretical prescriptions as illustrated in table 5.1 below.

**Table 5.1 Main Attributes of Internet Mediated Questionnaires**

<b>Attribute</b>	<b>Theoretical Prescription</b>	<b>Research Application</b>
<b>Population's characteristics for which suitable</b>	Computer-literate individuals who can be contacted by e-mail, Internet or Intranet.	All respondents had direct e-mail addresses and had full access to the Internet.
<b>Confidence that the right person has responded.</b>	High if using e-mail.	High as marketing decision makers were known by name, position occupied in company and contact e-mail.
<b>Likelihood of contamination or distortion of respondent's answer.</b>	Low	Low
<b>Size of sample</b>	Large, can be geographically dispersed.	A target population was set and all sample units were contacted. Respondents were geographically dispersed.
<b>Likely response rate</b>	Variable, 30% reasonable within organisations, via internet. 11% or lower using Internet.	A response rate of 17.8% was achieved via the Internet.
<b>Feasible length of questionnaire</b>	Conflicting advice; however, fewer 'screens' probably better.	Seven 'screens' used.
<b>Suitable types of questions</b>	Closed questions but not too complex, complicated sequencing fine if uses IT, must be of interest to the respondent.	Mostly closed questions (4-point Likert scale) allowing one selection per item. Questions that required multiple response provided drop down menus for selection.
<b>Time taken to complete collection</b>	2-6 weeks from distribution (dependent on number of follow-ups).	Two and a half weeks with one follow-up.
<b>Main financial resource implication</b>	Web page design.	Service of software developer.
<b>Role of the interviewer</b>	None	Follow up on respondent queries and suggestions.
<b>Data input</b>	Usually automated	Automated into Excel but imported by the researcher into SPSS.

Adapted from Saunders, Lewis and Thornhill (2007)

As internal validity and reliability of data and the response rate depend, to a large extent, on the design and structure of the questions the appearance and layout of the questionnaire was of particular concern to the researcher. The layout was designed to make reading questions and filling in responses easy. The service of a software developer was furthermore obtained to create a professional



web page that offered respondents the opportunity to complete the survey on-line. No coding was visible on the questionnaire and this was only done once the questionnaire was completed.

The questionnaire aimed to obtain information regarding procurement processes, rules and norms of exchange, offer of exchange and exchange relationship. The order and flow of questions were however designed to be logical to the respondent rather than follow the order of the data requirement tables and the questionnaire was therefore divided into six logical sections namely:

1. ABOUT YOURSELF – This section obtained some respondent demographic data including the respondent's job position, current position tenure and the industry in which the respondent work.
2. ABOUT YOUR CURRENT ADVERTISING AGENCY – This section obtained some firmographics about the agency currently appointed by the respondent's company. The respondent had to indicate the type of agency employed; the year in which the agency was appointed; the size and geographic location of the agency; how the agency is remunerated; how often the contract is reviewed; if the respondent was involved in the appointment of the agency and lastly if working conditions remained the same the respondent had to indicate the probability to reappoint the current agency.
3. ABOUT THE APPOINTMENT OF THE CURRENT ADVERTISING AGENCY - The aim of this section was to gain insight into the procurement process and decision making involved when advertising agencies are appointed.
4. ABOUT THE CURRENT AGENCY – This section gauge the current relationship with the appointed agency. The level of loyalty was also established in this section.

5. SWITCHING ADVERTISING AGENCIES – In this section the respondent had to indicate considerations deemed important when the company switch from one service provider to another.
6. APPOINTING A NEW ADVERTISING AGENCY – Lastly, the respondent had to indicate the importance of listed attributes when a new agency is appointed.

Each of these sections was introduced with clear instructions on how to answer the subsequent questions. All sections were displayed as separate screens and once a section was completed the respondent had to click on a “NEXT” button to open up a new section. This format ensured that the questionnaire length was perceived as manageable and not too long.

It is important to note is that section 1 and 2 recorded descriptive information but that data obtained from the following sections (section 3 to section 6) addressed the research objectives, research and investigative questions and provided support for or against the hypotheses. In order to ensure that the essential data was collected data requirement tables were constructed. These tables (table 5.2 to 5.9) highlight the appropriate measurement items and variables to be addressed in order to provide research insights that will address the research objectives of this study. Each table reports on different sections of the research study. These tables are complemented by the actual questionnaire attached as annexure 9 (MS Word format) and annexure 10 (screen dumps of online version of the questionnaire). Tables 4.1 to 4.10 (see pp.115-129) provide the theoretical background to identified measurement items.

**Table 5.2 Data Requirement Table – Respondent Profile**

Measurement Item	Variables	Research Insight
<ul style="list-style-type: none"> <li>• Job title (M1)</li> <li>• Position tenure (M2)</li> <li>• Industry classification (M3)</li> <li>• Involved with agency appointment decision (M10)</li> </ul>		Demographic profile of the respondents
<ul style="list-style-type: none"> <li>• Agency type (M4)</li> <li>• Year agency was appointed (M5)</li> <li>• Agency classification (M6)</li> <li>• Remuneration practice (M7)</li> <li>• Contract review frequency (M8)</li> </ul>		Firmographic profile of agencies appointed

**Table 5.3 Data Requirement Table – Procurement Process**

Measurement Item	Variables	Research Insight
Which of the following role players in your company were involved in the appointment of the agency? (M11)	Procurement: Buying centre	Investigative question: Who is the buying centre for advertising appointments?
<ul style="list-style-type: none"> <li>• To what extent did your company obtain information about the reliability of possible suppliers? (M12)</li> <li>• To what extent did your company specifically search for information on the capabilities of possible suppliers? (M13)</li> </ul>	Procurement: Search for information	Investigative question: What decision process is applied when advertising agencies are appointed?
To what extent did your company conduct market research on possible suppliers? (M14)	Procurement: Formal analysis	Investigative question: What decision process is applied when advertising agencies are appointed?
<ul style="list-style-type: none"> <li>• At our company there is an established way of appointing an advertising agency. (M15)</li> <li>• Responsibility in terms of the appointment of an advertising agency was clearly defined. (M16)</li> </ul>	Procurement: Procedural control	Investigative question: What decision process is applied when advertising agencies are appointed?

**Table 5.4 Data Requirement Table – Rules and Norms of Exchange / Market Conditions**

Measurement Item	Variables	Research Insight
In general, should you consider renewing the contract with the current agency, how important is the underlying market conditions i.e. the availability of suitable alternatives or contractual obligations? (M68)	Rules and norms of exchange	Investigative question: What is the importance of rules and norms of exchange?
<ul style="list-style-type: none"> <li>There were other agencies that would have been suitable for this appointment. (M17)</li> </ul>	<ul style="list-style-type: none"> <li>Level of dependency: Extensiveness of choice set</li> <li>Procurement process</li> </ul>	Investigative questions: What are the forces that shape organizational buying behaviour for advertising agencies? and What decision process is applied when advertising agencies are appointed?
<ul style="list-style-type: none"> <li>Our advertising expenditure was a major financial commitment for our company.(M18)</li> <li>Compared to other expenditures, high level approval was required to appoint the agency. (M19)</li> </ul>	<ul style="list-style-type: none"> <li>Level of dependency: Purchase importance</li> <li>Procurement process</li> </ul>	Investigative questions: What are the forces that shape organizational buying behaviour for advertising agencies? and What decision process is applied when advertising agencies are appointed?
<ul style="list-style-type: none"> <li>Our company had much bargaining power in this appointment. (M20)</li> <li>The agency we appointed gave us a much better deal than other agencies. (M21)</li> </ul>	<ul style="list-style-type: none"> <li>Level of dependency: Buyer power</li> <li>Procurement process</li> </ul>	Investigative questions: What are the forces that shape organizational buying behaviour for advertising agencies? and What decision process is applied when advertising agencies are appointed?
<ul style="list-style-type: none"> <li>Race composition of the agency's ownership (M22_1)</li> <li>Race composition of the agency's management (M22_2)</li> <li>Employment equity policy of the agency (M22_3)</li> <li>Employment equity numbers of the agency (M22_4)</li> <li>BEE accreditation (M22_5)</li> </ul>	<ul style="list-style-type: none"> <li>Black Economic Empowerment</li> <li>Procurement process</li> </ul>	Investigative questions: What are the forces that shape organizational buying behaviour for advertising agencies? and What decision process is applied when advertising agencies are appointed?
<ul style="list-style-type: none"> <li>Switching will probably involve hidden costs/charges. (M73)</li> <li>The company could end up with a bad deal financially. (M74)</li> <li>The company will lose benefits of being a long-term client if we leave our agency.(M78)</li> <li>Switching to a new agency would involve some up-front costs.(M80)</li> </ul>	<ul style="list-style-type: none"> <li>Source of dependency: Financial switching cost</li> <li>Procurement: Situational characteristics</li> </ul>	<p>Research question: What are the interrelationships between buyer seller exchanges and customer retention?</p> <p>Investigative question: What decision process is applied when advertising agencies are appointed?</p>

**Table 5.4 Data Requirement Table – Rules and Norms of Exchange (Continue)**

Measurement Item	Variables	Research Insight
<ul style="list-style-type: none"> <li>• I worry that the service offered by other agencies won't be as good as expected. (M71)</li> <li>• The company might end up with poor service for a while.(M72)</li> <li>• The company cannot afford the time to get the information to fully evaluate other agencies. (M75)</li> <li>• Comparing the benefits of our advertising agency with the benefits of other agencies takes too much time/effort, even when I have the information. (M76)</li> <li>• Even after switching, it would take effort to "get up to speed" with the new advertising agency.(M77)</li> <li>• There are a lot of formalities involved in switching to a new advertising agency. (M79)</li> <li>• Agency has niche expertise (M46)</li> </ul>	<ul style="list-style-type: none"> <li>• Source of dependency: Procedural switching cost</li> <li>• Procurement: Situational characteristics</li> </ul>	<p>Research question: What are the interrelationships between buyer seller exchanges and customer retention?</p> <p>What decision process is applied when advertising agencies are appointed?</p>
<ul style="list-style-type: none"> <li>• I like the public image of our advertising agency. (M48)</li> <li>• I do not care about the brand/company name of our advertising agency.(M49)</li> <li>• I would miss working with the people of our current agency should we switch providers. (M81)</li> </ul>	<ul style="list-style-type: none"> <li>• Source of dependency: Relationship switching costs</li> <li>• Procurement: Situational characteristics</li> </ul>	<p>Research question: What are the interrelationships between buyer seller exchanges and customer retention?</p> <p>What decision process is applied when advertising agencies are appointed?</p>

**Table 5.5 Data Requirement Table – Offer of Exchange**

<b>Measurement Item</b>	<b>Variables</b>	<b>Research Insight</b>
In general, should you consider renewing the contract with the current agency? How important is satisfaction with the current service offering? (M69)	Offer of exchange	Investigative question: What is the importance of offer of exchange?
How will you describe the overall level of satisfaction of your company with the outcomes of this agency in the past year? (M66)	Overall satisfaction	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
<ul style="list-style-type: none"> <li>• The professional/technical skills.(M50)</li> <li>• Quality of advertising service. (M51)</li> <li>• Level of creativity. (M52)</li> <li>• Quality of client care. (M53)</li> <li>• Price.(M54)</li> </ul>	Service output and service satisfaction: Qualifying buying dimensions	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
<ul style="list-style-type: none"> <li>• Integrity when advice is offered. (M55)</li> <li>• Pro-activity in generating new ideas. (M56)</li> <li>• Correct interpretation of our briefing. (M57)</li> <li>• Access to a number of creative teams. (M58)</li> <li>• Stability of key account management. (M59)</li> <li>• Consistent work processes. (M60)</li> <li>• Empathy to creative changes. (M61)</li> <li>• Constant information on account status. (M62)</li> </ul>	Service output and service satisfaction: Interactional quality	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
<ul style="list-style-type: none"> <li>• The compatibility of working styles between the agency and your company. (M63)</li> <li>• Compliance with budget limitations. (M64)</li> <li>• Strength in strategic thinking. (M65)</li> </ul>	Service satisfaction	Research question: What are the interrelationships between buyer seller exchanges and customer retention?

**Table 5.6 Data Requirement Table – Relationship of Exchange**

Measurement Item	Variables	Research Insight
How important is the working relationship we have with the agency? (M70)	Relationship of exchange	Investigative question: What is the importance of relationship of exchange?
<ul style="list-style-type: none"> <li>Integrity when advice is offered. (M55)</li> <li>Pro-activity in generating new ideas. (M56)</li> <li>Correct interpretation of our briefing. (M57)</li> <li>Access to a number of creative teams. (M58)</li> <li>Stability of key account management. (M59)</li> <li>Consistent work processes. (M60)</li> <li>Empathy to creative changes. (M61)</li> <li>Constant information on account status. (M62)</li> </ul>	Service output and service satisfaction: Interactional quality	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
<ul style="list-style-type: none"> <li>The compatibility of working styles between the agency and your company. (M63)</li> <li>Compliance with budget limitations. (M64)</li> <li>Strength in strategic thinking. (M65)</li> </ul>	Service satisfaction	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
<ul style="list-style-type: none"> <li>The relationship that the company has with the agency is something we are very committed to. (M40)</li> <li>The relationship that the company has with the agency deserves our maximum effort. (M41)</li> </ul>	Collaborations and Coordination: Commitment Intention	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
<ul style="list-style-type: none"> <li>We stay in the relationship because we really enjoy working together. (M42)</li> <li>We stay in the relationship with the agency because our philosophies match. (M43)</li> </ul>	Collaborations and Coordination: Affective Commitment	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
<ul style="list-style-type: none"> <li>We stay in the relationship because there is just too much time, energy, and expense involved in terminating our relationship with the agency. (M44)</li> <li>We stay in the relationship because we are bound by a contract. (M45)</li> </ul>	Collaborations and Coordination: Calculated Commitment	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
Our company can count on the agency to be sincere. (M23)	<ul style="list-style-type: none"> <li>Trust: Honesty</li> <li>Service output</li> </ul>	Research question: What are the interrelationships between buyer seller exchanges and customer retention?

**Table 5.6 Data Requirement Table – Relationship of Exchange (Continue)**

Measurement Item	Variables	Research Insight
When making important decisions, the agency is concerned about our welfare. (M24)	<ul style="list-style-type: none"> <li>Trust: Benevolence</li> <li>Service output</li> </ul>	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
<ul style="list-style-type: none"> <li>We are satisfied with the quality of people assigned to the account. (M25)</li> <li>Our advertising agency's personnel thoroughly learned the characteristics of our business. (M26)</li> <li>The agency is willing to make recommendations and/or object to our decisions when they believe them wrong.(M27)</li> <li>The agency's representatives are frank in dealing with our company.(M28)</li> <li>Promises made by the agency are reliable. (M29)</li> <li>Our advertising agency has tailored its products/services and procedures to meet our specific needs.(M30)</li> <li>We include each other in formal business planning meetings. (M31)</li> <li>Our company and our advertising agency share relevant cost information.(M32)</li> </ul>	<ul style="list-style-type: none"> <li>Collaborations and Coordination: Account support</li> <li>Service Output</li> </ul>	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
<ul style="list-style-type: none"> <li>Communication takes place frequently. (M33)</li> <li>The basic terms of our relationship have been explicitly verbalized and discussed. (M34)</li> <li>The basic terms for sharing information have been explicitly verbalized and discussed. (M35)</li> <li>We share proprietary information with each other. (M36)</li> </ul>	<ul style="list-style-type: none"> <li>Collaborations and Coordination: Communication</li> <li>Service Output</li> </ul>	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
<ul style="list-style-type: none"> <li>Disagreement between our company and advertising agency has considerably increased the productivity of our working relationship. (M37)</li> <li>Our advertising agency tends to give us the "benefit of the doubt" in conflict situations. (M38)</li> <li>Conflict is seen as a "productive discussion" rather than an "argument". (M39)</li> </ul>	<ul style="list-style-type: none"> <li>Collaborations and Coordination: Conflict Harmonization</li> <li>Service Output</li> </ul>	Research question: What are the interrelationships between buyer seller exchanges and customer retention?



**Table 5.7 Data Requirement Table – Selection Criteria**

Measurement Item	Variables	Research Insight
Importance of: <ul style="list-style-type: none"> <li>Professional/technical skills. (M82)</li> <li>Quality of advertising service. (M83)</li> <li>Level of creativity. (M84)</li> <li>Level of service during pitching. (M85)</li> <li>Previous successful campaign record. (M86)</li> <li>Quality of client care. (M87)</li> <li>Reputation. (M88)</li> <li>Price. (M89)</li> <li>Previously held competitive accounts. (M90)</li> <li>Geographic proximity. (M91)</li> <li>Directives from head office. (M92)</li> <li>Compatible personality traits. (M93)</li> <li>Black Economic Empowerment. (M94)</li> <li>Procurement policies and procedures. (M95)</li> <li>Contractual obligations. (M96)</li> <li>The agency's brand name. (M97)</li> <li>History of involvement between your company and the agency. (M98)</li> <li>Previous professional relationships between key individuals. (M99)</li> </ul>	Selection criteria	Investigative question: what supplier selection criteria are used for advertising agency appointment?

**Table 5.8 Data Requirement Table – Performance Expectations**

Measurement Item	Variables	Research Insight
<ul style="list-style-type: none"> <li>Show Integrity when advice is offered. (M100)</li> <li>Be pro-active in generating new ideas. (M101)</li> <li>Have correct interpretation of briefings. (M102)</li> <li>Offer access to a number of creative teams. (M103)</li> <li>Have stability of key account management. (M104)</li> <li>Show consistency with regards to work processes. (M105)</li> <li>Have empathy to creative changes. (M106)</li> <li>Provide constant information on account status. (M107)</li> <li>Display strength in strategic thinking. (M108)</li> </ul>	Performance expectations	Investigative question: What are the forces that shape organizational buying behaviour for advertising agencies?

**Table 5.9 Data Requirement Table – Retention Intention**

Measurement Item	Variables	Research Insight
Propensity to continue with the relationship (M9)	Retention	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
I would renew the contract of this agency if I was given this option today.(M47)	Retention	Research question: What are the interrelationships between buyer seller exchanges and customer retention?
On a scale of 1 to 10, how loyal are you to this service provider? (M67)	Loyalty	Research question: What are the interrelationships between buyer seller exchanges and customer retention?

#### 5.3.4 Variables Considered

Three types of data variables were collected through the questionnaire namely opinion, behaviour and attribute data. It is important to distinguish between these variables as it influenced the way questions were stated (Saunders, Lewis & Thornhill 2007).

Opinion variables record how respondents feel about something or what they think or believe is true or false (Saunders, Lewis and Thornhill 2007). Respondents were required to record their opinions in regard to various statements relating to the current appointed agency under the “ABOUT THE CURRENT ADVERTISING AGENCY” section. Respondents were further required to provide opinions about their beliefs in the event of switching advertising agencies under the “SWITCHING ADVERTISING AGENCIES” section.

In contrast, data on behaviours and attributes record what respondents do and are. When recording what respondents do, their behaviour is recorded. This differs from respondents' opinions because concrete experience is recorded (Saunders, Lewis and Thornhill 2007). Respondents were required to record their behaviour in the “ABOUT THE

APPOINTMENT OF THE CURRENT ADVERTISING AGENCY" and "APPOINTING A NEW ADVERTISING AGENCY" sections.

Behavioural variables therefore contain data on what people (or their organisations) did in the past, do now or will do in the future. By contrast, attribute variables contain data about the respondents' characteristics. Attributes are best thought of as things a respondent possesses, rather than things a respondent does. It is used to explore how opinions and behaviour differ between respondents as well as to check that the data collected are representative of the total population (Saunders, Lewis and Thornhill 2007). Attributes were recorded in the "ABOUT YOURSELF" and "ABOUT YOUR CURRENT ADVERTISING AGENCY" sections.

In order to ensure that the essential data was collected data requirement tables were constructed for each section of the research (see table 5.2 – 5.9). Individual questions were mostly adapted from questions used in other questionnaires which allowed the researcher to assess the item reliability. Scales that showed internal consistency in previous research was used, as indicated in Chapter Four.

Items were however adapted to the specific characteristics of this research setting. The measurement items were refined and developed through the research process, and pilot tested in the specific context of this research to insure nomological, discriminant, convergent, and face validity of the measurement instrument as discussed in the next section. Scales with large numbers of items was trimmed to a more practical level in pilot testing. Definitions of constructs and variables presented in figure 5.1, as well as measurement items and construct reliability scores are discussed in Chapter Four of the thesis. The structured questionnaire is presented in annexure 9.

Questions were mostly closed-ended and provided a number of alternative answers from which the respondent was instructed to choose. The questions were easy to answer and required minimal writing. Question types included (definitions from Saunders, Lewis & Thornhill 2007):

- *Quantity*, the response of which is a number i.e. the year in which the agency was appointed.
- *List*, where the respondent was offered a list of items, any of which may be selected i.e. role players involved in the agency appointment decision.
- *Category*, where only one response could be selected from a given set of categories i.e. type and size of agency, industry classification, position tenure etc.
- *Rating*, in which a rating device was used to record responses.

Rating questions were mostly used to collect opinion data and used likert-style rating scales in which the respondent is asked how strongly she or he agrees or disagrees with a series of statements on a four-point rating scale. In order to avoid confusing respondents the same order of response categories were clustered but included both positive and negative statements so as to ensure that the respondent reads each one carefully and thinks about which box to tick. An even number of points (four) has been used in order not to allow the respondent to 'sit on the fence' but rather to commit to clear opinion.

Pilot testing obtained the opinions of a group of industry experts (four) on the representativeness and suitability of the questions (see section 5.3.2, p141). The questionnaire was also reviewed by a highly qualified statistician from a data perspective, marketing colleagues (four) from a respondent perspective and lastly members (three) of the information technology department from a technical perspective.

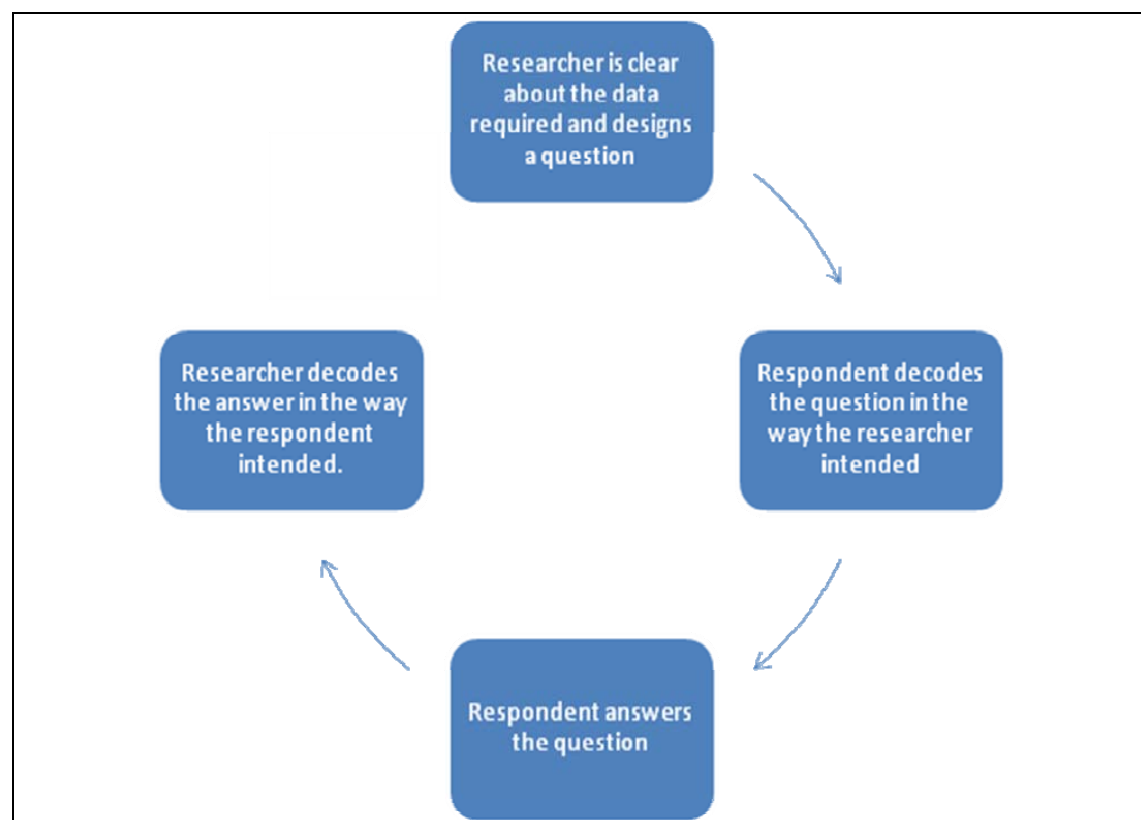
### 5.3.5 Sound Measurement

A valid questionnaire will enable accurate data to be collected that is reliable if collected consistently (Saunders, Lewis & Thornhill 2007). There are three major criteria for evaluating a measurement tool: Validity, reliability and practicality (Cooper & Schindler 2008).

- Validity refers to the extent to which a test measures what we actually want to measure.
- Reliability has to do with the accuracy and precision of a measurement procedure.
- Practicality is concerned with a wide range of factors of economy, convenience and interpretability.

There are at least four stages that must occur if the question is to be valid and reliable (figure 5.2).

**Figure 5.2 Measurement Item Development**



Source: Adapted from Saunders, Lewis and Thornhill (2007)

In order to ensure validity and reliability appropriate measures were therefore employed in the quantitative research as discussed in the subsequent sections.

### 5.3.5.1 Reliability

Essentially reliability denotes stability or consistency, that is, reliable measures are consistent from one administration to the next (Saunders, Lewis & Thornhill 2007). This study has considered the possible sources of variation in measurement scores as indicated by Dillon, Madden and Firtle (1990) and considered these in the following manner (table 5.10):

**Table 5.10 Measurement Instrument Reliability**

Possible source of variation	Measures employed to improve reliability
True differences in the characteristic being measured.	Measures were obtained from well regarded authors and published studies in academic journals and only measures with a high score for construct reliability were considered for inclusion within the questionnaire.
Characteristics of individuals that affect scores.	Respondent selections followed clear respondent profile compliance.
Short-term personal factors	Respondents were offered various mediums to complete the survey i.e. survey completed on a word document or as an online survey available on the Internet.
Variations in administration of the measuring instrument.	A structured questionnaire was used with clear instructions.
Sampling of items included in the questionnaire.	Measures were obtained from well regarded authors and published studies in academic journals and only measures with a high score for construct reliability were considered for inclusion within the questionnaire. Measures were also presented to industry experts in the qualitative phase of this research.
Lack of clarity of the measuring instrument.	The instruments were informed by pre-testing and established measures.
Instrumental factors	Care was taken in the design of the questionnaire to provide sufficient space to record responses and to comply with professional quality standards.
Analysis factors	The size of the sample allowed the review of all data entered. Experts were also used to review the statistical compilation.

#### **5.3.5.2 Construct Validity**

The term construct validity has come to be used generically to provide a broad umbrella under which the other types of validity are subsumed (Dillon, Madden & Firtle 1990). This study considered content, convergent, discriminant and criterion validity.

Content (face) validity focuses on whether the scale items adequately cover the entire domain of the construct under study (Dillon, Madden & Firtle 1990). Content validity was addressed by considering literature from an exhaustive literature review and catering for up to five levels of variables to cover construct architecture. Clear constructive and operational definitions were also provided for each construct.

Convergent validity generally addresses the extent to which two (or more) measurement scales designed to measure the same construct correlate. Scales used for this study showed internal consistency in previous research and was refined and developed through the research process and pre-tested in the specific context of this study resulting in the trimming of scales to a practical level of items.

Discriminant validity examines the extent to which the measurement scale is novel and not simply a reflection of some other variable (Dillon, Madden & Firtle 1990). In this study discriminant validity was assessed by examining the correlation between the measure of interest and other measures that purportedly measure a different, but related, characteristic or construct.

Criterion (nomological) validity investigates whether the measurement scale behaves as expected in relation to other constructs (Dillon, Madden & Firtle 1990). Criterion validity was assessed, in this study, by

determining the extent to which the observed measurement scale scores can predict some criterion measure.

Both reliability and validity contributed to the quality of data gathered. The next step was to analyse this data.

## **5.4 Data Analysis**

A mass of raw data is without meaning, and tells the researcher nothing until it is processed to extract meaningful data. This section describes the steps taken in this study to organise and analyse the data obtained in this study. The discussion will give an overview of the data preparation, preliminary analysis, hypotheses testing, and measures of association. This overview will set the statistical analysis protocol for Chapter Seven.

### **a. Data preparation and preliminary analysis**

The survey was designed to provide ease of use when coding and editing the data. Each question allowed for a variable code value to be allocated to each response. A standard code of 0 for non-response was applied when entering the data. All codes were mutually exclusive and independent. The online questionnaire automatically entered and saved the data to a computer file at the time of the collection. This data file was exported to an excel data matrix. This matrix was thereafter exported into SPSS in order to perform statistical analysis.

Most data obtained were classified as ordinal qualitative data (Pellissier 2007). In the case of ordinal data, data can indicate 'less than' and 'greater than' (Martins, Loubser & De J van Wyk 1996:322). An ordinal scale provides a qualitative difference between categories, and some



order to the intensity/value/levels of the variable being measured. An ordinal variable has been defined in terms of increasing values of an attribute (e.g. strength of agreement) (Page & Meyer 2000). A respondent can thus rank preferences, expectations, performance, agreement, and so forth by allocating a number representing the degree of agreement based on an indicated Likert scale attached to a specific set of anchors (bipolar concepts). The item's rank thus reflects the range (1-4) from the lowest to the highest responses (Page & Meyer 2000).

Once the data was edited and captured it was processed to provide descriptive measures in order to describe the data set according to its shape (Saunders, Lewis & Thornhill 2007; Pellissier 2007). Data were summarised for individual variables in the form of frequency tables and where applicable graphs. Descriptive statistics were also calculated to describe (and compare) variables numerically (Saunders, Lewis & Thornhill 2007). Lastly, in order to evaluate relationships that involved nominally scaled variables, cross-tabulation was employed. Processed data are displayed in the Chapter Seven (7) in the format of frequency tables and bar-charts.

Once data preparation and preliminary analysis were completed the next step was hypothesis testing.

### **b. Hypotheses testing**

Hypotheses should be tested to determine their accuracy in order to determine the statistical likelihood that the data reveal true differences and not a random sampling error. The importance of a statistical significant difference is evaluated by weighing the practical significance of any change measured (Cooper & Schindler 2008).

The two hypotheses involved in hypothesis testing are the **null hypothesis** and the **alternate hypothesis**. These hypotheses are commonly abbreviated to  $H_0$  and  $H_1$  respectively.  $H_1$  describes the research hypothesis, while  $H_0$  assumes that the research hypothesis is false. The purpose of hypothesis testing is to determine which of the two hypotheses is best supported by the data. If the probability of obtaining the data under the null hypothesis is small, then it is unlikely that the null hypothesis is true, resulting in the rejection of the null hypothesis in favour of the alternate hypothesis (Page & Meyer 2000). Null and alternate hypotheses formulated for this thesis are listed under section 5.2 of this chapter.

Statistical hypothesis testing is all a matter of probabilities, and there is always the chance of error (Leedy & Ormrod 2005). In fact, there are two types of errors associated with a hypothesis test: a Type I error and a Type II error. A Type I error occurs if a true null hypothesis is rejected and a Type II error occurs when a false null hypothesis is accepted (Cooper & Schindler 2008). Hypothesis testing places a greater emphasis on the Type I errors than on Type II (Emory & Cooper 1991). In order to illuminate these errors hypotheses are tested for statistical significance. Accuracy of hypotheses is thus evaluated by determining the statistical likelihood that the data reveal true differences – not random sampling error (Cooper & Schindler 2008). Since any sample will somewhat vary from its population, and hypotheses are accepted or rejected on the basis of sampling information alone, it is important to judge whether these differences are statistically significant or insignificant. A difference has statistical significance if there is a good reason to believe the difference does not represent random sampling fluctuations (Cooper & Schindler 2008). Testing for statistical significance follows a relatively well-defined pattern and consists of six stages namely; (1) Stating the null hypothesis; (2) Choosing the

statistical test; (3) Selecting the desired level of significance; (4) Computing the calculated difference value; (5) Obtaining the critical test value and (6) Interpreting the test (Cooper & Schindler 2008). This chapter describes the first three stages; the latter three stages will be addressed in chapters six and seven.

#### *Stating the null hypothesis*

In the case of this study relational hypotheses were formulated (see section 5.2). These are statements describing a relationship between two variables. Hypotheses were one-tailed (or directional) which placed the entire probability on an unlikely outcome into the tail specified by the alternative hypothesis (Cooper & Schindler 2008). It is also important to note that a single sample was conducted and that the hypothesis was tested against only one sample.

#### *Choosing the statistical test*

To test a hypothesis, one must choose an appropriate statistical test considering the following guiding criteria: Firstly, the power efficiency of the test should be considered. A more powerful test provides the same level of significance with a smaller sample than a less powerful test. In addition, in choosing a test, one can consider how the sample is drawn, the nature of the population, and the type of measurement scale used (Cooper & Schindler 2008).

In general, there are two classes of significance tests: parametric and nonparametric. Parametric tests are used to test hypotheses with interval and ratio data and nonparametric tests are used to test hypotheses with nominal and ordinal data (Saunders, Lewis & Thornhill 2007). In the case of parametric tests, observations must be independent, the observations should be drawn from normally distributed populations with equal variances and the measurement

scales should at least be interval so that arithmetic operation can be used with them (Cooper & Schindler 2008). This research study does not comply with these assumptions and can therefore not use parametric tests.

Tests that do not make assumptions about the population distribution are referred to as nonparametric tests (Page & Meyer 2000). All commonly used nonparametric tests rank the outcome variable from low to high and then analyse the ranks. In the case of this study, with due consideration to the population and sample, the size and number of the samples, as well as the measurement scales employed nonparametric testing would be most suitable to establish the level of significance.

The most commonly used univariate tests in business and management are the goodness-of-fit test. These tests are nonparametric and used to determine whether the sampled values for a variable 'fit' a hypothesised distribution (Page & Meyer 2000). A chi-squared goodness-of-fit test is applied to determine how closely observed frequencies or probabilities match expected frequencies or probabilities and can be computed for nominal, ordinal, interval or ratio data (Leedy & Ormrod 2005). The formula by which chi-square ( $\chi^2$ ) test is calculated is (Cooper & Schindler 2008):

$$\chi^2 = \sum_{i=1}^k \frac{(O_i - E_i)^2}{E_i}$$

$O_i$  = Observed number of cases categorised in the  $i$ th category

$E_i$  = Expected number of cases in the  $i$ th category under  $H_0$

$k$  = The number of categories

There is a different distribution for ( $\chi^2$ ) for each number of degrees of freedom (d.f.), defined as ( $k-1$ ) or the number of categories minus 1.

$$\text{d.f.} = (k-1)$$

This test relies on the categories used in the contingency table being mutually exclusive so that each observation falls into only one category or class interval. Furthermore, it is expected that no more than 20 percent of the cells in the table have expected values of less than five. In cases where cell frequencies are less than five, rows and columns will be combined to produce meaningful data (Saunders, Lewis & Thornhill 2007).

In addition, Cramer's V and Phi will also be calculated. Cramer's V is a statistic measuring the strength of association or dependency between two categorical variables in a contingency table (Cooper & Schindler 2008). Phi compares the relative strengths of significant association. Phi is a chi-square-based measure of association that involves dividing the chi-square statistic by the sample size and taking the square root of the result (Cooper & Schindler 2008).

In Chapter Seven each hypothesis were subjected to this statistical test and if the calculated value was greater than the critical value the null hypothesis was rejected.

#### *Selecting the desired level of significance*

The acceptable level to set for a P-value cut-off will be determined by the importance of the issue at hand, and the implications of making a type I error. In management research, it may be acceptable to be wrong 10 per cent of the time, but when a wrong decision is very costly much greater confidence is required. The accuracy/validity of the data is another factor that influences the optimum cut-off P-value (Page & Meyer 2000). The most common level of significance is 0.05 (Cooper & Schindler 2008; Saunders, Lewis & Thornhill 2007). This allows a five per cent chance of a Type I error, which occurs when the null hypothesis is rejected although true. This study used a p-value of 0.05

which was deemed appropriate based on the quality of respondents and data.

### **c. Multivariate statistical techniques**

This study further required to identify relationships or patterns of association among multiple variables collectively. Multivariate statistical techniques afforded the researcher the opportunity to gain greater insight into relationships and patterns of the marketing issues under study (Martins, Loubser & De J van Wyk 1996).

The statistical process by which the nature of relationships among different variables is determined is called correlation (Leedy & Ormrod 2005). The resulting statistic is called a correlation coefficient. A correlation coefficient enables the quantification of the strength of the linear relationship. When data require ordinal measures, there are several statistical alternatives such as *gamma*, Kendall's Tau *b* and Tau *c*, Somers's *d* and Spearman's rho suitable to calculate the correlation coefficient. All but Spearman's rank-order correlation are based on the concept of concordant and discordant pairs. None of these statistics require the assumption of a bivariate normal distribution, yet by incorporating order, most produce a range from -1.0 (a perfect negative relationship) to +1.0 (a perfect positive relationship). Within this range, a coefficient with a larger magnitude (absolute value of the measure) is interpreted as having a stronger relationship. These characteristics allow the analyst to interpret both the direction and the strength of the relationship (Cooper & Schindler 2008).

In order to measure the association between two variables the analysis considered Kendall's Tau B; Phi and Cramer's V. The latter two statistical measures differs from Kendall's Tau B as the association between two variables is measured on a scale where 0 represents no

association and 1 represents perfect association (Saunders, Lewis & Thornhill 2007). These correlation coefficient measurements were calculated in order to compare the relative strengths of significant associations between different pairs of variables. Kendall's Tau B on the other hand indicated the direction and strength of the relationships. The results hereof are presented in Chapter Seven.

#### **d. Factor analysis**

Factor analysis will be used to define the underlying structure in the data matrix. With factor analysis, separate dimensions of the structure can be determined as well as the extent to which each variable is explained by each dimension (2005). Factor analysis will therefore be used to summarise the data as well as for data reduction. "In summarising the data, factor analysis derives the underlying dimensions that, when interpreted and understood, describe the data in a much smaller number of concepts than the original individual variables" (Hair, Anderson, Tatham & Black 2005: 90).

Factor analysis will consider the anti-image matrices of the partial correlations among variables after factor analysis, representing the degree to which the factors "explain" each other in the results. In these matrices the diagonal contains the measures of sampling adequacy for each variable, and the off-diagonal values are partial correlations among variables (Hair, Anderson, Tatham & Black 2005). Data screening will be done to avoid extreme multicollinearity and singularity. Variables that do not correlate with the other variables ( $R < 0.6$ ) or that correlate very highly with other variables ( $R > 0.9$ ) will thus be eliminated (Field 2007).

In order to confirm the suitability of the variables contained in the correlation matrix and the significance of all correlations the Kaiser-

Meyer-Olkin (KMO) measure the sampling adequacy and Bartlett's test of sphericity will be calculated. The KMO should be greater than 0.5 for a satisfactory factor analysis to proceed (Hair, Anderson, Tatham & Black 2005; Field 2005). Bartlett's test of sphericity should furthermore indicate significance equal to or lower than the optimum cut-off value of 0.05.

Once the descriptive measures confirmed that the sample is adequate and the correlation between the variables is significant, Principal Axis Factoring will be used to conduct factor analysis. Factors will be extracted and retained if initial communalities (the squared multiple correlation for the variable using the factors as predictors) exceeded 0.255 and Eigenvalues exceed 1 (Field 2005).

Factor loadings are also calculated for each variable onto each factor and are presented within a rotated component matrix. The variables are listed in order of size of their factor loadings. Common themes will be identified amongst highly loaded questions to identify constructs (Hair, Anderson, Tatham & Black 2005; Field 2005).

In both the case of correlation and factor analysis the reliability of the new factors will be measured and scales/factors with a Cronbach's Alpha higher than 0.6 will be accepted (Hair, Anderson, Tatham & Black 2005; Field 2005). One way analysis of variance (one way ANOVA) will be used to analyse the variance, that is the spread of data values, within and between groups of data by comparing means (Saunders, Lewis & Thornhill 2007).



## **5.5 Conclusion**

This chapter discussed and justified the research design approach employed in this research. A mixed method approach was used to confirm a theoretical conceptual model describing the consideration set for the appointment of advertising agencies in South Africa. This chapter further outlined the procedures followed in collecting data with consideration given to maximising reliability and validity. An overview of data analysis used was also given. The following chapters outline the analysis resulting from these procedures.

## **CHAPTER 6**

### **QUALITATIVE INSIGHT**

## **6.1 Introduction**

This chapter considers insight obtained from four respondents that were interviewed to understand their interpretations of client consideration set formulation and decision-making. Respondents were selected based on their role and experience within the industry. Interviews were conducted with Gordon Paterson, representing a full service media agency; Tracy Roberts representing a full service advertising agency; Nana Nkosi, from a specialist agency and lastly Alan Bolon who is a respected consultant to the industry.

The purpose of the interviews was to gain new insights from an agency perspective. The perspectives and insights gained were used to refine the measurement items and instrument. The semi structured interviews addressed the identification of clients to retain from an agency's perspective; how client defection is measured and handled within agencies; the perceived drivers of client retention; and the impact of rules and norms, resources, and relationships of exchange on client retention and choice behaviour. Lastly, respondents were asked to comment on the representativeness and suitability of the questions considered for inclusion within the questionnaire. Complete transcriptions of the interviews are available in annexure 6.

## **6.2 Insight about the Advertising Industry**

Respondents commented on various factors that related to issues deemed important to the advertising industry, client relations and service related issues. These comments were synthesis and discussed under the guiding constructs of the study namely; rules and norms of exchange; offer of exchange and relationship of exchange.

### **6.2.1 Rules and Norms of Exchange**

According to Roberts (2008) the advertising industry has lost the magic of the eighties. Today, the client base is getting smaller and smaller and the budgets are getting tighter and tighter and this all happens in an environment that is characterised by fierce competition. The distinction between different types of agencies are also becoming more blurred as traditional specialist agencies are becoming more and more integrated (Nkosi 2008; Roberts 2008 and Paterson 2008). Bolon concurs and said the industry today is much more results driven and a lot more action orientated.

All respondents agreed that clients are spoiled for choice (Bolon 2008; Nkosi 2008; Paterson 2008 and Roberts 2008) and that the level and source of dependency are mostly because of the organisational structure of bigger clients and international alignment. Indeed, this has become a buyer's market. Clients and agencies are also more and more inclined to get professional third parties to objectively measure performance i.e. APRAIS (Bolon 2008; Nkosi 2008; Paterson 2008 and Roberts 2008).

There are some conflicting views with regards to the composition of buying centres involved in the appointment of agencies. Whilst agencies view marketing people as easy to work with, the same could not be said about their colleagues in procurement. From a marketing executive's perspective, they want a good product that they can believe in because their bonuses, remuneration and future career prospects are determined by the success of the brand. They realise that they need a partner (a media partner or an agency partner) with talent, ability, access to a team of capable and professional account support people at a fair price. Procurement however, measures

success by costs reduction and the output is somebody else's problem (Patterson 2008).

BEE is becoming less important from a client perspective. Clients require agencies to deliver; "We want the best people working in our business and we don't care about colour. We're not racist we want the goods and we're not prepared to pay for training. So don't put a trainee in our business. Put somebody skilled who is capable and I don't care if they've got three legs, or, if they're black, white, green, male, female, I don't care" (Paterson 2008).

The advertising industry acknowledged that they have gone through a horrific racist period resulting in a lot of hard work to try and transform the industry, but this has been slow and not that effective. Enrichment is growing, but transformation has not taken place. "I've seen so many young talented people who, through relationships acquire ownership, but ownership and leadership are fundamentally different. The fact that you can buy an aeroplane doesn't mean you can fly it". Leadership should be achieved through combat, through delivery, through learning, through the rigor of capitalism as advertising and marketing is at the cutting edge of capitalism.

The transformation that's taking place has not come with a willingness to take responsibility and accountability. The training institutions objectives are profit, despite the fact that they're funded by the industry. The graduates produced by these schools are not the quality the industry expects. "I've had far better results by going to the university of Johannesburg and get young people straight out of BSc degrees" (Paterson 2008). Roberts (2008) and Nkosi (2008) agree and both highlight the challenges they have to find and employ people in a client service capacity. Bolon (2008) believes that the problem is

when people are put into jobs too quickly without proper guidance and mentoring. When he started in the industry there was a lot of training, the youngsters coming in were given time to be mentored by senior people. He believes that at the moment that's not happening as resources became tighter, and scarcer.

Paterson explained that "As an industry we need to be more honest about transformation and that will only come from being more discerning about the people who come into it. Anyone can get into advertising now. I can't teach people to be bright. I can teach people media and planning and strategy. I can teach that, but I cannot teach people to be smart - it's impossible".

### **6.2.2 Offer of Exchange**

Agencies today have to form strategic partnerships with their key clients. This requires agencies to gain a thorough insight into the business and operations of their clients. The traditional specialist agencies i.e. media and branding agencies no longer consider the services they offered in isolation but incorporate their inputs to align with the clients business strategy and are also willing to offer a broader range of services which brings the role of the traditional agency and the specialist agency much closer (Nkosi 2008).

Roberts highlights that client-agency interactions should be all about adaptation to the client. "For me it's about adding value" said Roberts. That's not just about normal communications; it is about creating return on investments. You know, for example, we are adding value from an input perspective on a daily basis i.e. give client information about what competitors in their industries are doing, international trends etc. Yeah, it is about seeing the bigger picture and not just the campaign" concludes Roberts (2008).

According to Nkosi (2008), for branding agencies it is very different from advertising agencies as they are not actually retained in terms of a signed time bound contract with an agreed retainer remuneration system. Branding agencies therefore need to constantly remind clients of the value they can add and are remembered by their last project. Each project therefore determines the future relationship between the agency and client. Roberts (2008) further states that in the case of the branding agencies, agencies want to be appointed based on established credentials and if this is not enough they will not pitch unless remunerated for the effort.

### **6.2.3 Relationship of Exchange**

Even though interaction occurs on all levels between the agency and client, it remains the responsibility of the senior executives to maintain or end relationships (Nkosi 2008).

According to Paterson (2008) “You find that the longer your relationship with a client, the more vulnerable you become, because with staff turnover being at such a high level in our country at the moment, it is even more so on the client side. A typical marketing person employed by our clients lasts about fifteen months and then they move on. The more senior the person moving on, the more changes the new appointee requires, because no one wants to work with the partners of the previous Marketing Director, they want their own”. This was confirmed by Bolon (2008) and illustrated with an example of the ABSA account. JWB won the pitch for the contract but as the marketing director changed a year later, so did the agency.

It is a challenge from a client service account management perspective to find people that are best suited to client service (Roberts 2008). “At our agency we actually are looking for people from

different spheres and not necessarily looking for people anymore in terms of client service from just an advertising background". We want people with a business background; with a marketing background; with a manufacturing background because the clients are just so diverse.

Marketing managers in many companies are lacking experience and are appointed in senior positions straight out of 'varsity' and have no longer the chance to work underneath somebody who could teach them the process (Bolon 2008; Roberts 2008). Agencies should therefore assist these managers with sound advice and not terrorize them with their experience (Roberts 2008).

#### **6.2.4 Research Insight**

In general all the respondents indicated that the heuristic model presented a detailed client consideration set. However, based on the insights gained from the interviews certain items were added to the measurement instrument. Items added included respondent's tenure within current position (to test executive turnover); a section that considered agency firmographics, i.e. industry classification; remuneration classification; and how often contracts are reviewed. The options of Operations/Logistics Director/Manager; Procurement Manager and Product Manager as possible role players involved in the appointment of advertising agencies were included in the survey, as well as respondents who appoint specialist agencies, who were previously not deemed suitable. The following criteria were added as appointment criteria; directives from head office; Black Economic Empowerment; prescriptions from procurement; history of involvement between your company and the agency and also previous professional relationships between key individuals.



The next section reports on the respondents views with regards to the identification of clients to retain.

### **6.3 Identification of Clients to Retain**

All the respondents agreed that the identification of clients to retain is a strategic decision informed by the views of account teams but ultimately the decision is taken by the board. The selection of key clients are mostly based on current account size, the future potential of the client and also considering the internal expertise located within an agency (Roberts 2008; Nkosi 2008 and Paterson 2008).

It was noted that all respondents agreed that the account size of clients are not the only driver of customer retention. At Starcom, for example, the agency can commit a 100% to key clients, even if that client is not profitable or currently highly profitable. "If client potential is there, and it allows us to do great work in an area that we have great skills, but perhaps no client, we could consider that client as key. If you don't exercise skill, no one can see it." According to Nkosi (2008), when HKLM opened their doors four and a half years ago it was the agency's approach to try and retain all clients and that that is still the philosophy and the mindset of the business today. Lastly, Roberts (2008) believes that there is a perception from clients with a smaller budget that the big agencies are only interested in the bigger clients or bigger contracts. "We have large clients but we also have a whole lot of smaller clients".

Key clients are identified based on:

1. Clients that will allow the agency to demonstrate their unique skills, which in turn could attract new customers (in other words – using

clients to promote the agency). Revenue potential, in this case, is not a primary consideration (Paterson 2008).

2. Clients are defined by billing, company size and profitability (Roberts 2008; Nkosi 2008 and Paterson 2008).
3. Clients that could become potentially profitable, or more profitable, irrespective of their billing (Roberts 2008; Nkosi 2008 and Paterson 2008).
4. Future potential of clients based on external environmental trends and industry developments (Roberts 2008; Nkosi 2008 and Paterson 2008).
5. Key customers that are seeking a relationship and not a once-off product or service (Nkosi 2008).
6. Key clients are clients who want to work with us and who we also want to work with (Roberts 2008).

### **6.3.1 Research Insight**

Various criteria are therefore used to identify key clients. This study limited the target population to all South African companies with an advertising budget that exceeds R500 000. The total media spend of the Top 100 advertisers range from R353 100 000 for MTN in the first position to R32 200 000 spend by Peugeot in the hundredth position (Ad Focus 2007). The target population therefore provides scope to investigate the relationship between agencies and advertisers of all sizes.

## **6.4 Client Defection Measurement**

According to Paterson (2008) most clients defect because of poor service. Another major reason for defection is senior marketing personnel turnover. There are, however, early warning signs that can indicate the intention of clients to defect.

*Early signs of client defection include:*

- More specialisation in their supply network. "You will find that they will say: Well, you do this, but we need these people to handle that" (Paterson 2008). Clients split advertising into above and below the line. The below the line activities are then outsourced to other agencies. Campaigns become more fragmented and it is just very messy (Roberts 2008).
- Client wants to become more reliant on written communication so that there is a track record of all communication in order to assign accountability (Paterson 2008).
- A sure sign is a changing client attitude. Clients become more reserved and ask for files that are held at the agency (Nkosi 2008).
- Clients will start making contact further up the hierarchy (Paterson 2008).
- Clients will become more unavailable and senior people are no longer available to meet with the agency's representatives (Paterson 2008).
- Clients start dealing with media owners directly (Paterson 2008).
- Clients become reluctant to listen to agency recommendations (Paterson 2008).
- Clients start paying a lot later and have more and more queries and problems with the accounts (Paterson 2008).

Roberts (2008) further highlights the fact that a lot of traditional agencies' business are done on a contractual basis. Agencies therefore know when the three-year (or whatever time period) contract comes up. The contract then goes out to pitch. From a branding agency perspective Nkosi (2008) revealed that she cannot recall that her agency have ever lost a key client. At HKLM (not retained on a contractual basis) the core account teams get together

to work through the client lists. Account teams and directors then consider different types of strategies in terms of what is additional value add are needed constantly remind clients of the agency.

All the respondents agreed that if early signs of client defection are present they would contact the clients directly to try and resolve possible unhappiness (Nkosi 2008; Paterson 2008 and Roberts 2008). However, according to Paterson (2008) you get two types of clients: You get the sort of clients who will pick up the phone and warn you that they are unhappy and these are the ones that are easy to deal with. On the other hand there are those who suddenly disappear because they don't want a confrontation and think that by ignoring you they will be able to set up a relationship somewhere else, making it more difficult to resolve the problem (Paterson 2008).

Even though it is the account managers that would detect early signs of defection it is the top executives from the agency and the advertiser who will try to resolve unhappiness (Nkosi 2008 and Roberts 2008).

#### **6.4.1 Research Insight**

Senior marketing executives are the decision makers with regards to agency retention or defection. Senior marketing executives are therefore most suitable as respondents for this study.

#### **6.5 Drivers of Client Retention**

According to Roberts (2008) the first and foremost driver of retention is the ability to adapt according to what both the client's and agency's needs are. She states that this has been a particular challenge for bigger agencies, as in the past, they could dictate to clients by saying: "Well these are our systems and processes and so that's the minimum

amount we are willing to take on" whereby today they need to adapt to what clients need.

For Nkosi (2008) it is all about adding value. This can only be done once you really understand the business of your client. Contact, according to Paterson (2008), is crucial. "More and more contact, it is all about communication across all levels within an organisation". Paterson believes that with contact there is interaction. "That is the secret", he said. "Some people call it client service, but it is not just about client service, it is being pro-active, picking up on something and sending it through and having that two-way communication with the client. That's crucial."

All respondents agreed that customer retention today is mostly based around the relationship that you form with the clients (Nkosi 2008; Paterson 2008; and Roberts 2008). What is consistent across all customers is the desire to be treated as an individual, a desire to have work produced and delivered on time, a desire for the work to make them look like the hero at all times and to do it affordably. Finally to deliver the sales or whatever the benefit is (Paterson 2008). Agencies should also add value strategically by tying their clients' communication strategy back into their marketing strategy and back into their business strategy (Nkosi 2008 and Roberts 2008). It is about gaining insight into the client's business and it is no longer just about the brief (Nkosi 2008 and Roberts 2008). Experience taught Bolon (2008) that unbreakable bonds are the result of keeping in touch with the key people in all of the client companies. Indeed clients should feel that they are cared for and on the mind of the agency's executives 24 hours a day.

Other drives of client retention include (Nkosi 2008; Paterson 2008; and Roberts 2008):

- Creative delivery.
- Good client service.
- Strong account support including industry experience, strong customer centricity, and strategic thinking.
- The ability to get to know your client's business.
- Adding strategic value.
- Sound processes and systems.
- Agency culture and staff attitude.
- Niche expertise.
- Personal relationships and networks.

#### **6.5.1 Research Insight**

Expectations and satisfaction of all of the above drives were included in the survey.

### **6.6 Measurement Items**

All respondents viewed the questions as representative and suitable for this study. Suggestions with regards to additional items were in most cases considered and included within the final questionnaire. The following general recommendations were received:

- Consider cutting similar questions in order to shorten the questionnaire
- Change the Likert scale from 5 points to 4 points, because otherwise you'll get lots of threes as there is a strong affinity to sit on the fence.
- Simplify the questionnaire – it is so important that people stay fresh.

- Break up into different logical question type categories.
- It could be useful to ask clients to classify agencies with regards to size and international alignment as this could have an influence on the relationship.

All of the above recommendations were included within the final questionnaire design.

## **6.7 Conclusion**

Although this phase of the research was done in a secondary role the insights gained from industry experts contributed significantly to the development of the final measurement instrument and understanding of the industry perspective. Industry experts provided rich data that allowed the researcher a closer look at the dynamics within the industry. In general, findings from this section were useful to refine the theoretical heuristic model; to add measurement items to address specific South African challenges; refine the sampling frame and modify the measurement instrument.

## **CHAPTER 7**

# **QUANTITATIVE DATA ANALYSIS**



## 7.1 Introduction

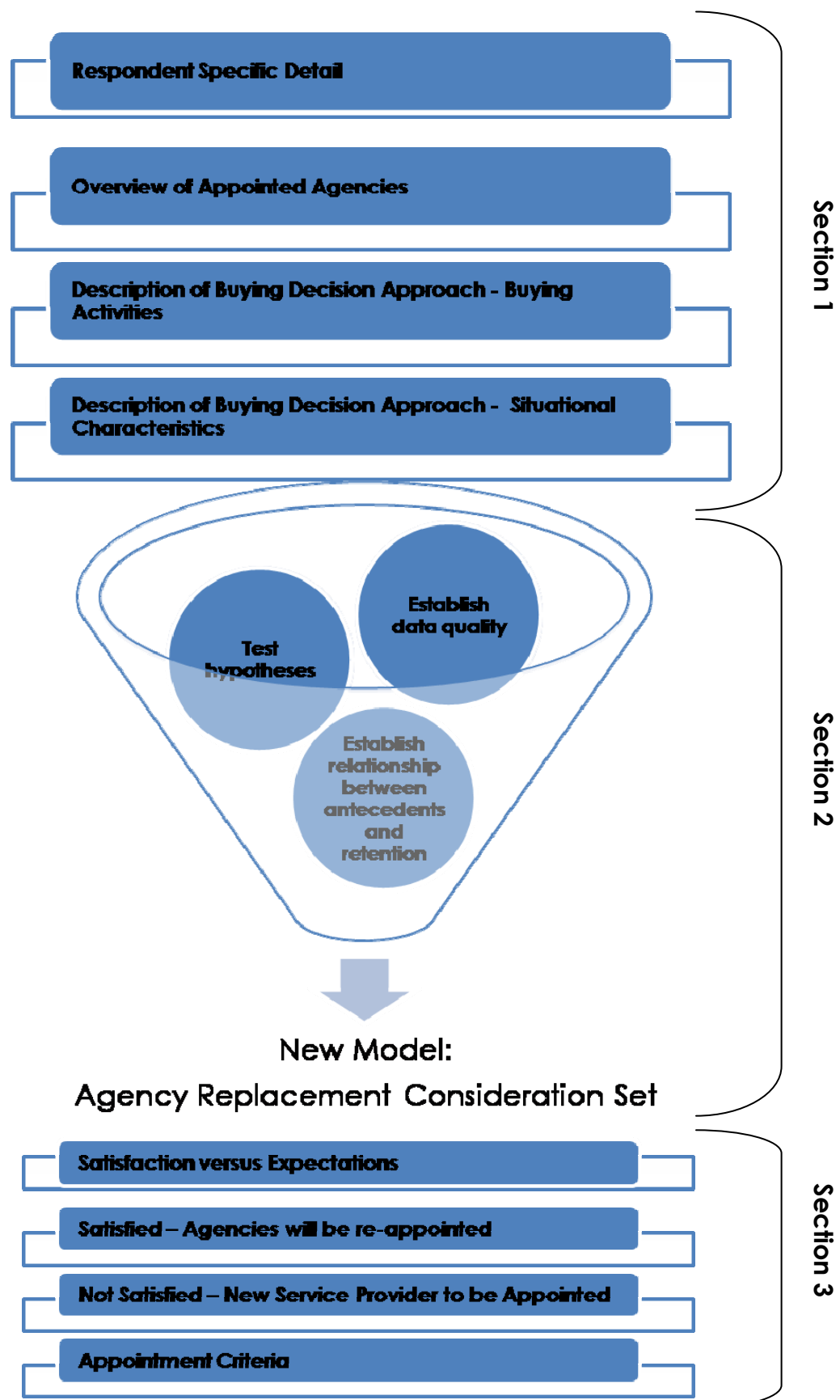
This chapter presents the data obtained from the 116 completed surveys. A wide range of issues are covered in this chapter, due to the comprehensive and holistic approach of the study. The chapter is presented in three sections as illustrated in figure 7.1.

Firstly, data is analysed using descriptive statistics in order to profile respondents, provide an overview of the current advertising agencies appointed by the respondents and lastly to provide insight into the decision making processes with regard to buying activities and situational characteristics. This information would be useful to explain procurement processes relevant to the appointment of advertising agencies.

Secondly, data quality is considered in order to determine if the data correctly represents the real-world constructs to which it refers. This is followed by hypothesis testing, in order to accept or reject the hypotheses stated in Chapter Five. Next, variables of retention are empirically tested in order to present a consideration set for agency replacement in the South African advertising industry. This information would be useful to answer the research objectives and question. Figure 7.1 illustrates section 2 using a funnel to illustrate that data analysis will lead to data reductions as not all hypotheses may be accepted or not all antecedents may correlate positive with retention.

Lastly, the association of and correlation between client expectations in general and client satisfaction in particular are considered. This information will be useful to create new scales to measure client satisfaction and expectations. This section will also investigate selection criteria applied when agencies are appointed.

Figure 7.1 Data Analysis Structure



## **7.2 Section 1 – Respondent and Industry Information**

This section considers the composition of the sample by reviewing the respondents' demographics. Next, agencies appointed by the respondents will be classified by type of agency, size of agency, as well as remuneration and review practices. This section will furthermore indicate if the respondent was involved in the appointment of the agency and the probability of continuing the relationship. The second part of this section deals with buying decision approaches during the procurement process. More specifically, this section addresses the buying activities undertaken and the situational characteristics displayed. This section will therefore provide input relevant to the procurement process practices for the appointment of advertising agencies.

### **7.2.1 Demographic Details of Respondents**

As respondents were guaranteed anonymity and company and respondent credentials were deemed confidential demographic data were limited to indicate the respondents' job position, current position tenure and the industry in which the respondent work. Note however that at least 13 of the top 20 Advertisers (Ad Focus 2007b) took part in this study. This was established by comparing optional e-mail addresses, obtained from the completed surveys, to that of the respondent database.

Most respondents (80%) were appointed in a senior marketing position as indicated in table 7.1 below. These positions included Marketing Directors (16%), Marketing Managers (33%), Sales and Marketing Directors (4%), Sales and Marketing Managers (1%), Group Marketing Executives (4%), General Manager: Sales and Marketing (8%), Head: Marketing (5%), Marketing Communication Directors (3%) and

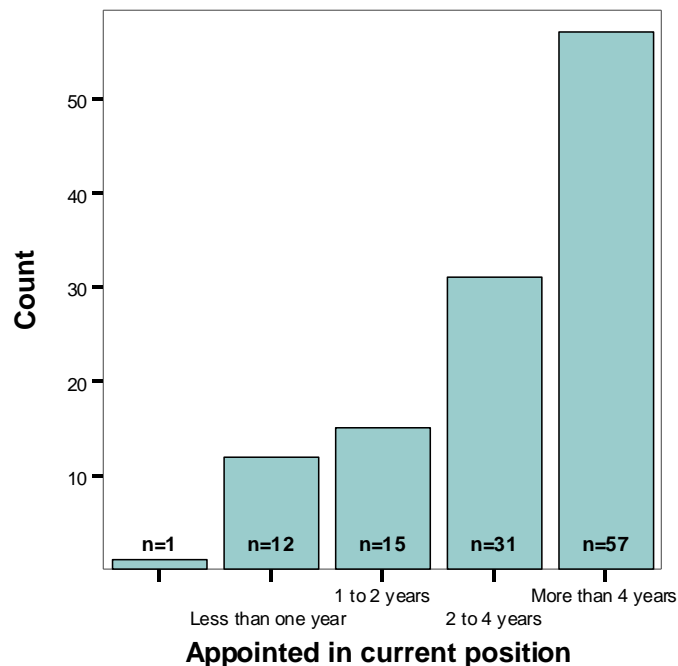
Marketing Communication Managers (5%). The remainder of the respondents were appointed in marketing related positions including Advertising Managers (3%), Brand Managers (12%), Product Managers (1%), and Business Development Manager/Directors (3%).

It was furthermore deemed important to consider the particular respondent's experience in the current position. Figure 7.2 indicates that most respondents (49%) have occupied their current position for longer than four years.

**Table 7.1 Respondent's Position**

	Frequency	Percent	Valid Percent	Cumulative Percent
No response	1	.9	.9	.9
Advertising Manager	4	3.4	3.4	4.3
Marketing Director	19	16.4	16.4	20.7
Marketing Manager	38	32.8	32.8	53.4
Product Manager	1	.9	.9	54.3
Sales and Marketing Director	5	4.3	4.3	58.6
Sales and Marketing Manager	1	.9	.9	59.5
Brand Manager	14	12.1	12.1	71.6
Business Development Manager / Director	3	2.6	2.6	74.1
Group Marketing Executive	5	4.3	4.3	78.4
General Manager: Sales and Marketing	9	7.8	7.8	86.2
Head: Marketing	6	5.2	5.2	91.4
Marketing Communication Director	4	3.4	3.4	94.8
Marketing Communication Manager	6	5.2	5.2	100.0
Total	116	100.0	100.0	

**Figure 7.2: Respondent's Tenure in Current Position**



Respondents also had to indicate in which industry they work. Table 7.2 indicates that the majority of respondents work in wholesale and retail trade (36%) followed by the manufacturing industry (32%).

**Table 7.2 Industry Classification**

	Frequency	Percent	Valid Percent	Cumulative Percent
No response	3	2.6	2.6	2.6
Agriculture, Hunting, Forestry and Fishing	2	1.7	1.7	4.3
Education	2	1.7	1.7	6.0
Manufacturing	37	31.9	31.9	37.9
Wholesale and Retail Trade	42	36.2	36.2	74.1
Transport, Storage and Communication	10	8.6	8.6	82.8
Financial Intermediation, Insurance, Real Estate and Business Services	18	15.5	15.5	98.3
Community, Social and Personal Services	2	1.7	1.7	100.0
Total	116	100.0	100.0	

### 7.2.1.1 Summary of Respondent Demographic Detail

Advertiser sample demographics are reported in table 7.1, figure 7.2 and table 7.2. The majority of respondents were appointed in a senior position for more than four years. Respondents were mostly employed in wholesale and retail trade and also in the manufacturing industry.

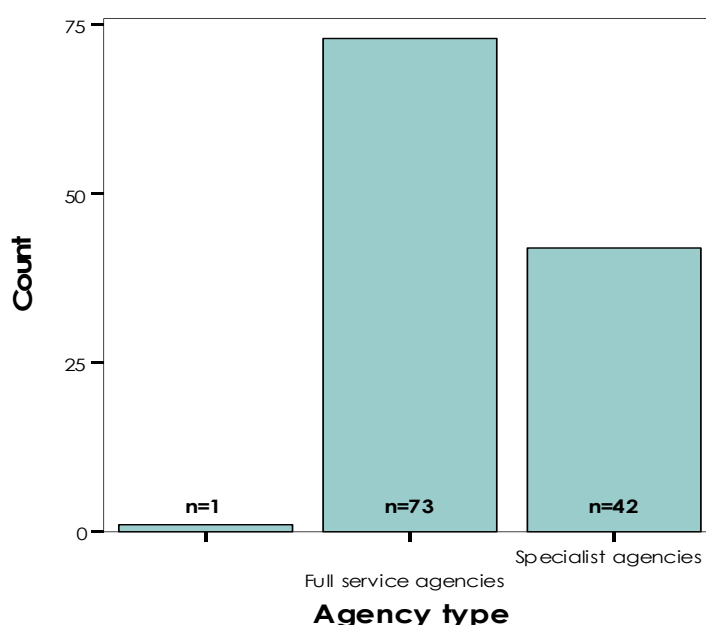
The following section will give an overview of the current advertising agencies appointed by respondents.

### 7.2.2 Overview of the Current Advertising Agency Appointed

This section dealt with the type of agency appointed, considering the scope of operations of the agency as well as the size of the agency. It further indicates how the agencies are remunerated by respondents and how often contracts are reviewed. The respondents also had to indicate the probability of continuing the relationship with the agency and lastly had to indicate whether they were involved in the appointment of the current agency.

The type of advertising agency employed provided an indication of the scope of the working relationship between the advertiser and the advertising agency. Figure 7.3 indicates that 63% of respondents employ full service agencies and the remainder (37%) employs specialist agencies.

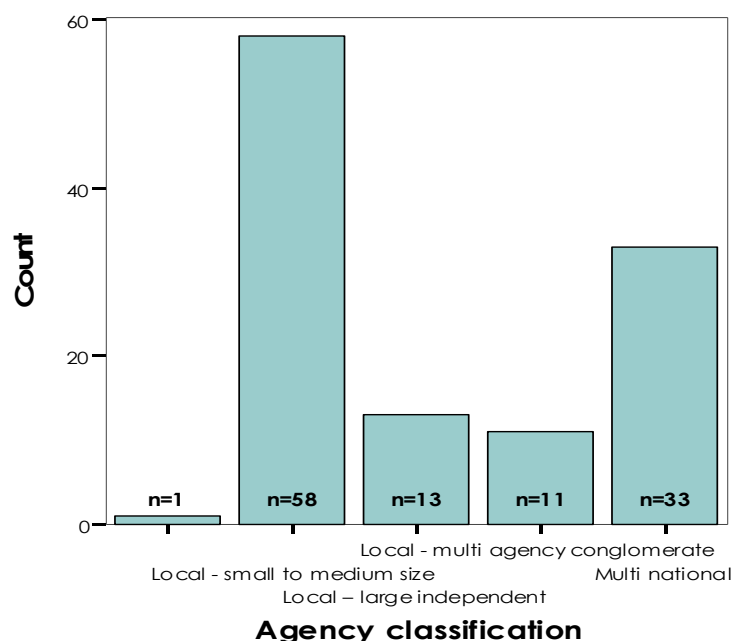
**Figure 7.3 Agency Type**



Descriptive statistics indicated that three of the agencies were appointed before 1990; 10 agencies were appointed prior 2000; 41 agencies were appointed from 2000 to 2004 and the remainder of the agencies (42) were appointed in the last four years. The average duration of relationships was five years. The agency appointed for the longest period have been in a relationship with the advertiser since 1979 (29 years) compared to seven agencies appointed within the last six months (2008). It was of concern that 9.5% (11 respondents) of the respondents did not indicate the year in which the agency was appointed. Further analysis however, revealed that the no responses were at random and not correlated to the tenure of the respondent or position occupied by the respondent. The no response could therefore indicate long standing relationships rather than a lack of knowledge.

Next, respondents were requested to classify the current agency according to size and geographic location. Figure 7.4 below indicates that 50% of respondents employ small to medium local agencies.

**Figure 7.4 Agency Classification**



Remuneration of agencies was the next item to be investigated. Respondents had to indicate how agencies were remunerated. In general, most respondents make use of either a “pay as you work” or “retainer” remuneration structure (see table 7.3 below). Remuneration may however be structured using a combination of remuneration methods which required further investigation.

**Table 7.3 Remuneration – Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Pay as you work	107	0	100	56.36	47.101
Retainer	107	0	100	39.52	45.463
Performance base	107	0	100	4.23	13.375
Other	107	0	50	.75	5.267
Valid N (listwise)	106				

Further analysis illustrated that 45.7% of all respondents use a total (100%) remuneration practice of “pay as you work”. In this case agencies are remunerated per project and paid once an invoice is generated by the agency and presented to the advertiser. In some instances (15 cases) a portion of the remuneration is based on some other form of performance or retainer criteria.

21.6% of respondents use a total (100%) remuneration practice of “retainers”. In this case agencies are paid a retainer to take care of all advertising services as agreed to by the advertiser and agency. In 24 of the cases agencies are paid a set percentage retainer as part of the total remuneration structure.

Only one respondent uses a total performance base remuneration structure. There were however 18 other cases that structured part of the remuneration around performance. Lastly, there were only two cases observed where some other form of remuneration structure was used but details were not specified.



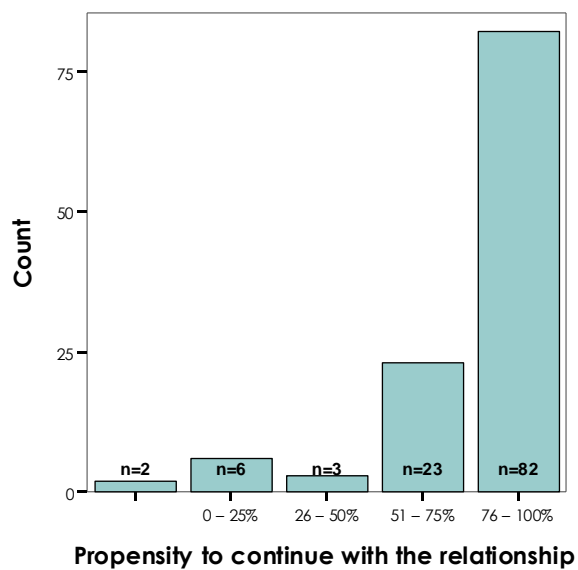
The next question dealt with the frequency of contract reviews. As indicated in table 7.4 most contracts (57%) are reviewed on an annual basis and 16.4% of respondents did not review contracts at all. Respondents specified other review periods as every two years; every three years; every five years; we do not sign contracts and reviews done elsewhere.

**Table 7.4 Contract Review Frequency**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No response	3	2.6	2.6	2.6
After each campaign	11	9.5	9.5	12.1
Monthly	1	.9	.9	12.9
Quarterly	2	1.7	1.7	14.7
Bi-annually	6	5.2	5.2	19.8
Annually	66	56.9	56.9	76.7
We don't review contracts	19	16.4	16.4	93.1
Other	8	6.9	6.9	100.0
Total	116	100.0	100.0	

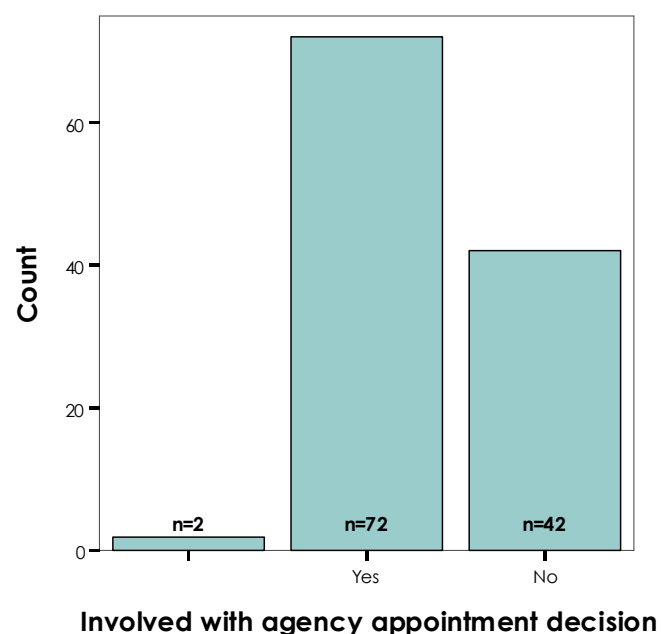
Next, respondents were asked "if working conditions remain the same, what is the probability that you will continue with your relationship with the agency?" Results are recorded in figure 7.5 below and are supportive of the notion that relationships between agencies and advertisers are close and enduring.

**Figure 7.5 Propensity to Continue with the Relationship**



Lastly, respondents had to indicate if they were involved with the appointment of the current agency. Figure 7.6 indicates that 62% of the respondents were involved in the appointment of the current agency.

**Figure 7.6 Involvement in the Appointment of the Current Agency**



### **7.2.2.1 Summary of the Current Advertising Agency Appointed Section**

The majority of respondents (63%) appoint full service advertising agencies. On average the advertisers have been appointed for a period of five years and the majority of agencies are remunerated on a project basis. Relationships are close and 70% of the respondents would continue with the current relationship if given the choice. Lastly, 62% of the respondents were involved in the appointment of the current advertising agency. The next section of the questionnaire required respondents to provide information about the appointment of the current advertising agency.

### **7.2.3 The Appointment of the Current Advertising Agency**

The purpose of this section was to understand the composition of buying center responsible for the appointment of the agency; to understand the extent of information obtained and formal analysis conducted during the procurement process; and lastly to gain insight into the procurement process itself.

#### **7.2.3.1 Buying Center Composition**

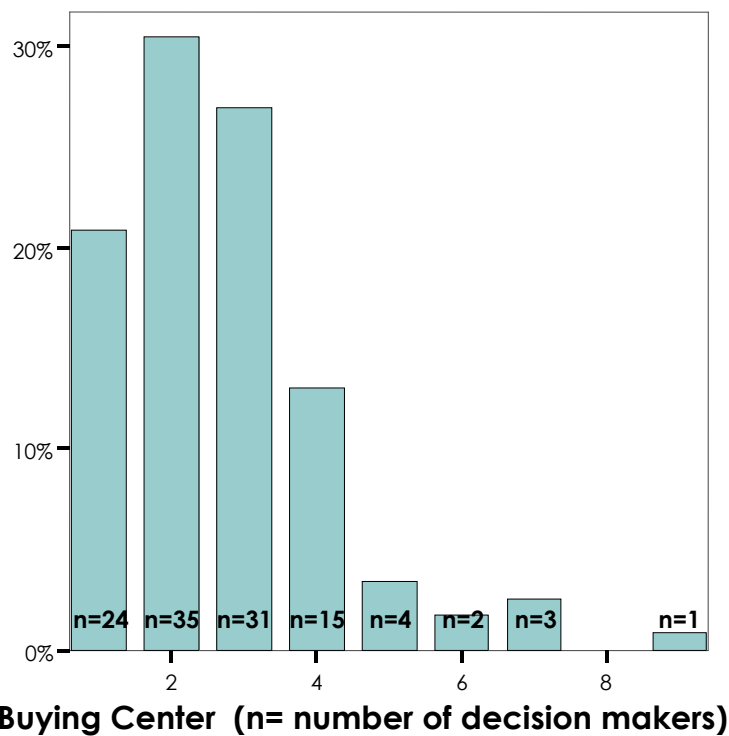
Respondents were asked to identify the role players involved in the appointment of the agency. Respondents were able to select more than one option and also specify other role players not listed in the predetermined set of options. Table 7.5 reports that the average size (mean) of the buying center (decision makers involved in the appointment of an advertising agency) is 2.69 members.

**Table 7.5 Descriptive Statistics of Buying Center Size**

	N	Minimum	Maximum	Mean	Std. Deviation
Consideration Set	115	1	9	2.69	1.489
Valid N (listwise)	115				

Table 7.6 indicate the composition of members of such buying centres. Categories were created by grouping similar positions in order to cater for different position name labels. These categories included Advertising/media Specialist (including Advertising Manager, Media Manager and Media Specialist); Senior Marketing Executive (including Group Marketing Executive, General Manager: Sales and Marketing, Head Marketing, Marketing Communication Director, Marketing Communication Manager, Marketing Director, Marketing Manager, Sales and Marketing Director and Sales and Marketing Manager) and Operations and Procurement Representative (including Operations/Logistics Director/Manager, Procurement Manager, Product Manager). These category frequencies were counted by case (with the maximum of one per case) rather than considering the total of respondents within a specific category. This was done in order to illustrate functional representation oppose to number of representatives. Results tabled in table 7.6 indicate that decisions are mostly made by Senior Marketing Executives but Chief Executive Officers are also key decision makers. Figure 7.7 indicates that the smallest buying center consists of a single decision maker (20% of buying centres) and that the largest buying centre consists of nine decision makers (only one case reported).

**Figure 7.7 Buying Center Size**



**Table 7.6 Buying Center Composition**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Advertising/Media Specialist	16	6.6	6.6	6.6
	Brand Manager	32	13.1	13.1	19.7
	Business Development Manager	8	3.3	3.3	23.0
	Chief Executive Officer	52	21.3	21.3	44.3
	Financial Director	11	4.5	4.5	48.8
	Senior Marketing Executive	94	38.5	38.5	87.2
	Key Account Manager	2	0.8	0.8	88.0
	Managing Director	17	7.0	7.0	95.0
	Operations/Procurement Rep	12	4.9	4.9	100.0
	Total	244	100.0	100.0	100.0

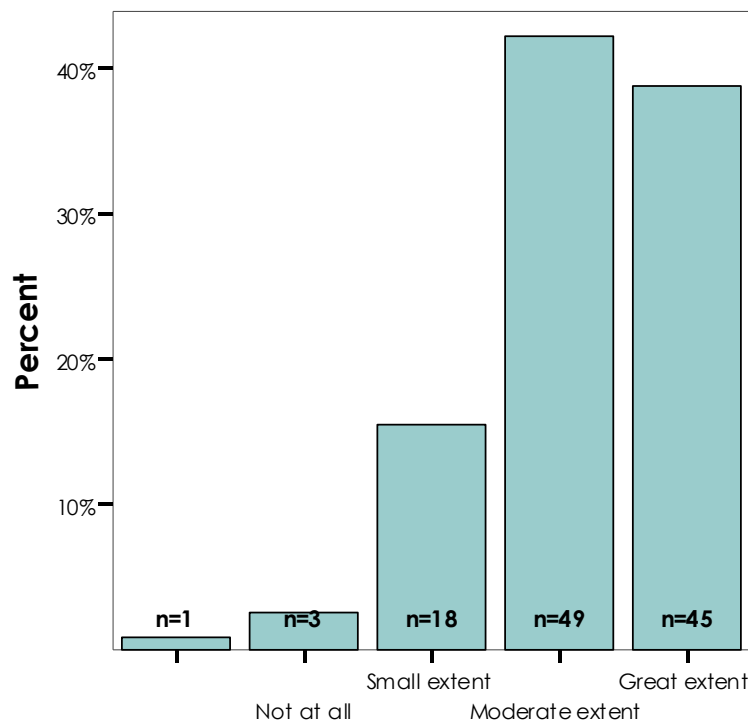
The next section examines the information obtained and the formal analysis conducted during the procurement process.

### 7.2.3.2 Buying Decision Approach – Buying Activities

Firstly, respondents were required to indicate the extent to which the company obtained information about the reliability of possible suppliers. Figure 7.8 indicates that 81% of the respondents obtained a

moderate to great extent of information about the reliability of possible suppliers as part of the procurement process.

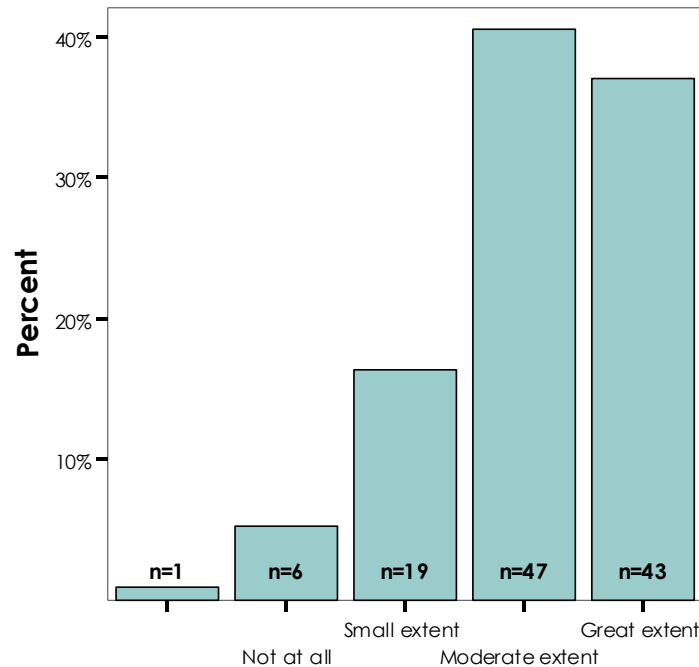
**Figure 7.8 Information Obtained about the Reliability of Possible Suppliers**



**Information was obtained about the reliability of agencies**

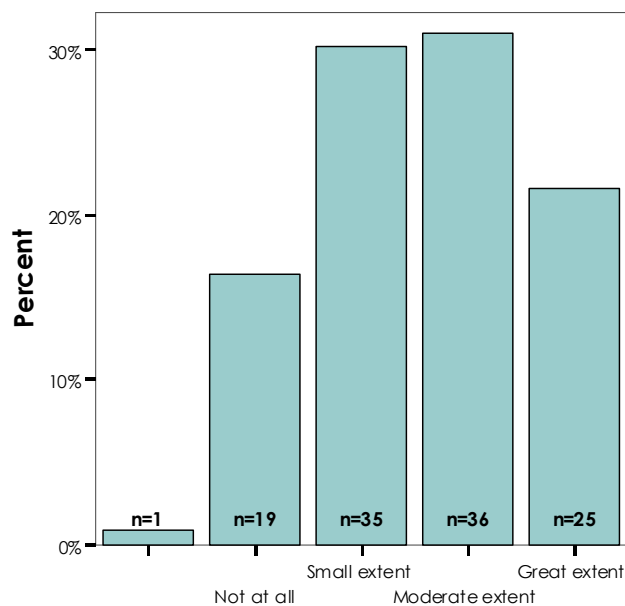
The next question considered the extent the company specifically searched for information on the capabilities of possible suppliers. Figure 7.9 indicates that 77% of the respondents obtained a moderate to great extent of information about the capabilities of possible suppliers as part of the procurement process. Lastly, the respondents indicated the extent to which the company conducted market research on possible suppliers. Figure 7.10 indicates that 31% of respondents conducted a small extent of research and that 21.6% of the respondents did no research at all.

**Figure 7.9 Information Obtained about the Capabilities of Possible Suppliers**



**Information was obtained about the capability of agencies**

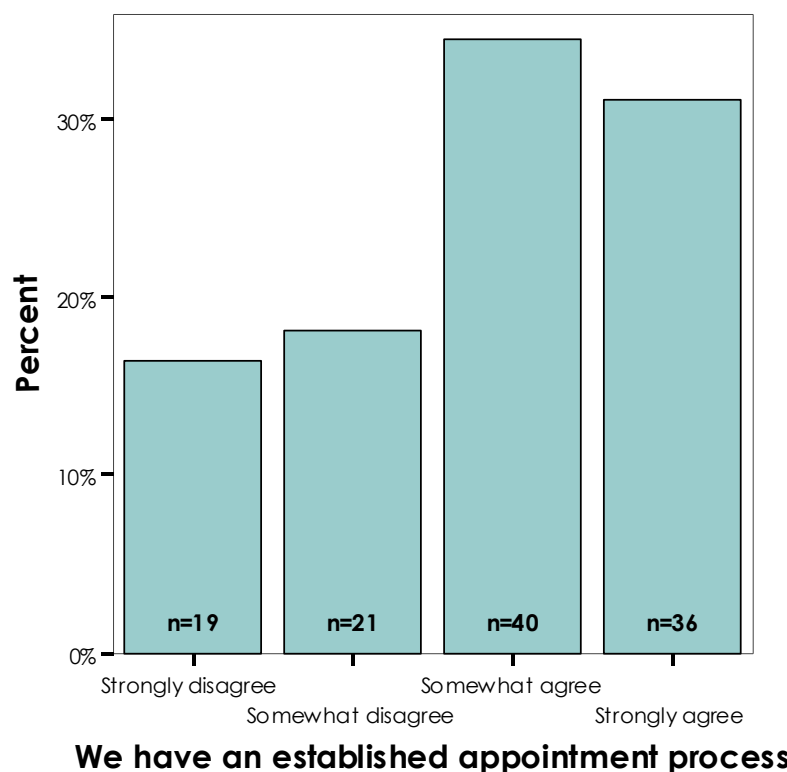
**Figure 7.10 Conducted Market Research on Possible Suppliers**



**Market research was conducted on agencies**

Considering the extent of information search, results confirm that the approach in this situation resembles the normative decision making model. Buyers searched for a great deal of information and applied analysis techniques. The next part of this section obtained information about the extent to which the evaluation of the agency appointment was guided by previous experience. Results will be used to confirm the buying decision approach undertaken by advertisers.

**Figure 7.11 Procurement Process**

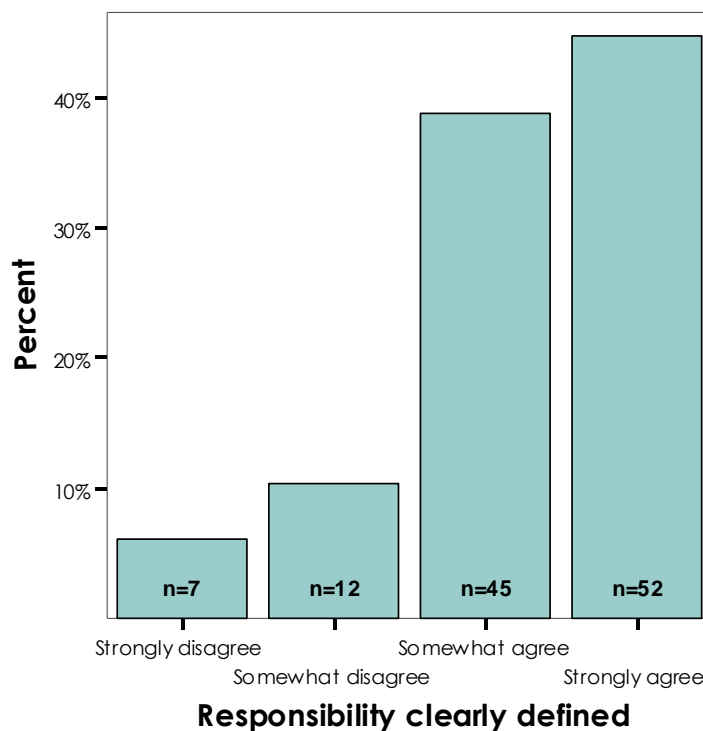


In order to establish the task uncertainty respondents had to indicate if there was an established way of appointing an advertising agency and if responsibility for this decision was clearly defined. Figure 7.11 illustrates that 31% of respondents strongly agreed that an established method of agency appointment exists within their companies compared to 34.5% of respondents indicated that they either strongly or somewhat disagree with the statement.



Figure 7.12 illustrates that responsibility for the appointment of an agency was in most cases (44.8%) clearly defined. Only 6% of the respondents indicated that these responsibilities were not well defined.

**Figure 7.12 Appointment Responsibility**



In order to determine the extensiveness of the choice set respondents had to indicate if there were other agencies that would have been suitable for this appointment. Figure 7.13 indicates that it could be conclude that there were indeed alternative suppliers in most cases.

**Figure 7.13 Alternative Service Suppliers**

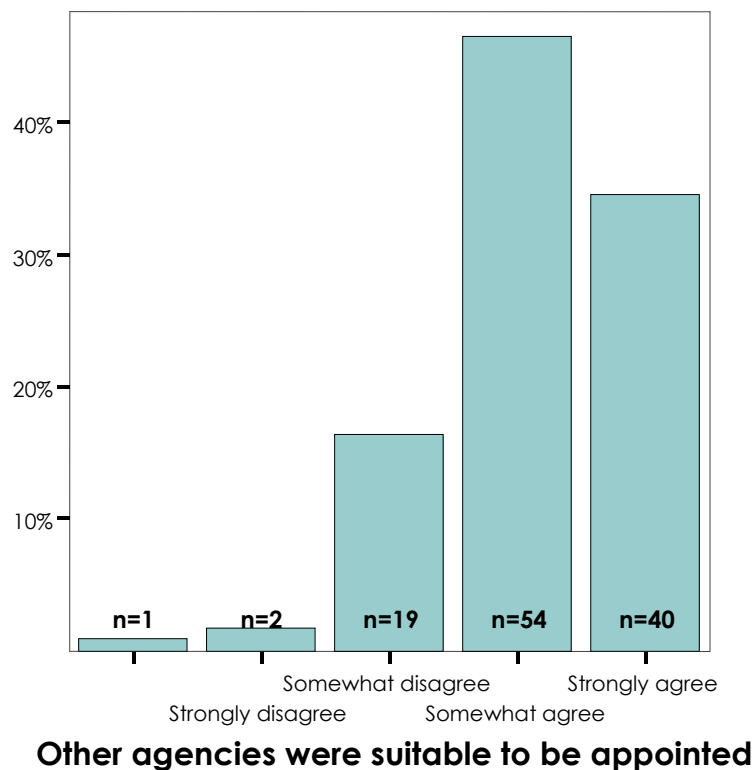
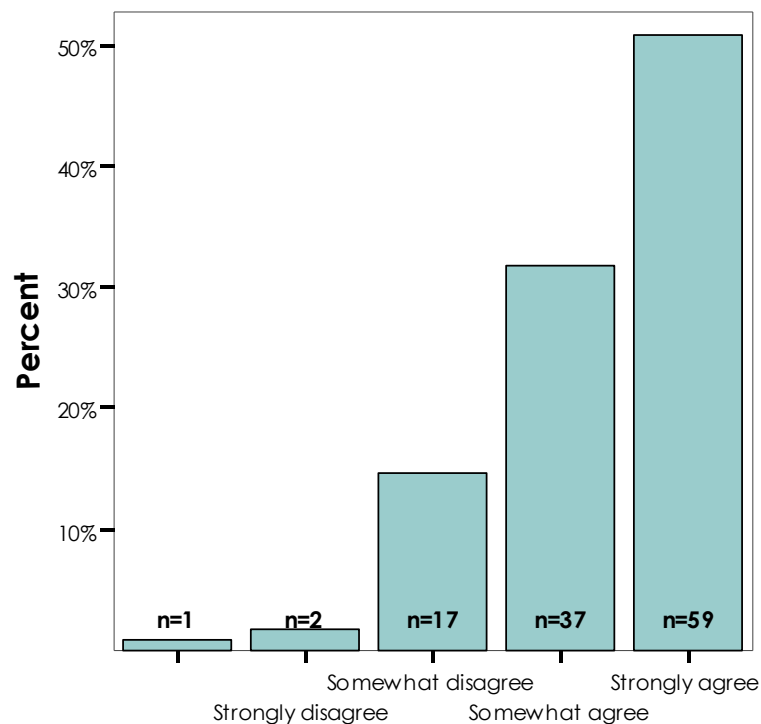


Figure 7.14 considers the purchase importance attached to the appointment of the advertising agency by requesting respondents to indicate whether advertising expenditure was a major financial commitment for the company. Figure 7.15 adds to this by indicating if high level approval was required to appoint the agency.

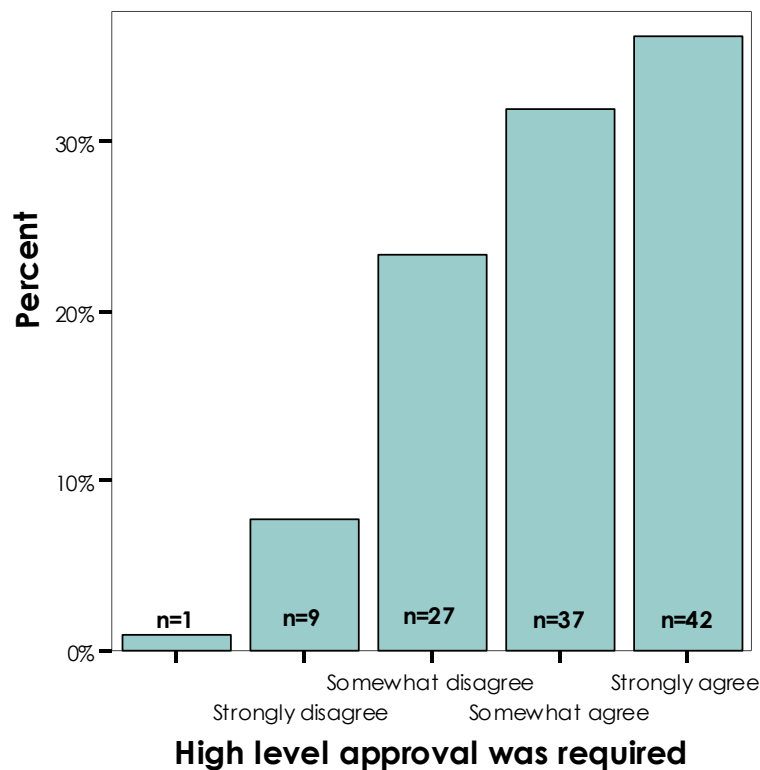
**Figure 7.14 Financial Commitment**



**Advertising expenditure is a major financial commitment**

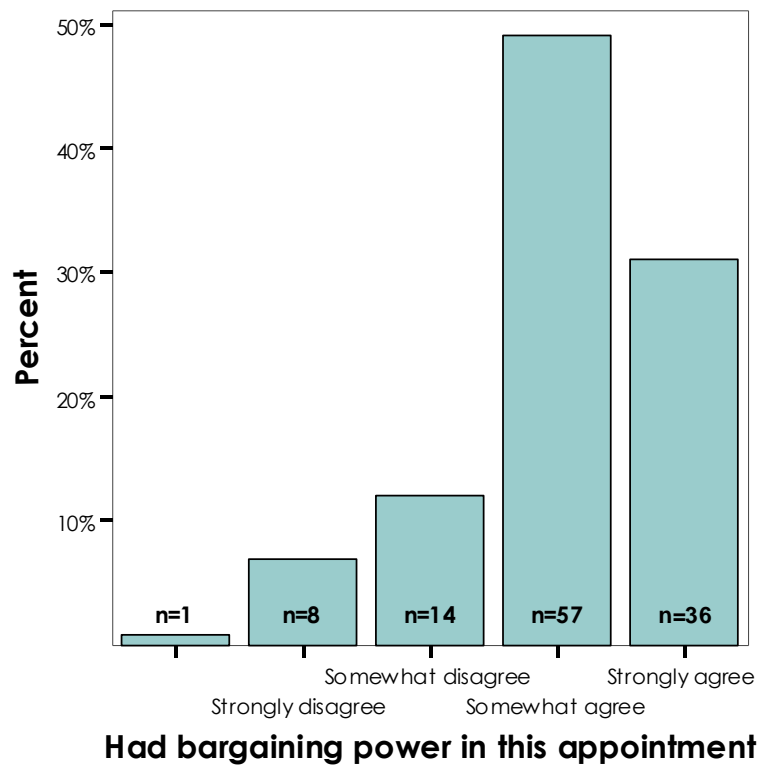
Figure 7.14 confirms that advertising expenditure is indeed a major financial commitment. This was fully confirmed by 50.9% of the respondents and somewhat agreed to by a further 31.9 % of respondents. Figure 7.15 confirms that a high level of decision approval was required with 36.2% of the respondents that strongly agree with this statement and 31.9% agreeing somewhat.

**Figure 7.15 Decision Approval**

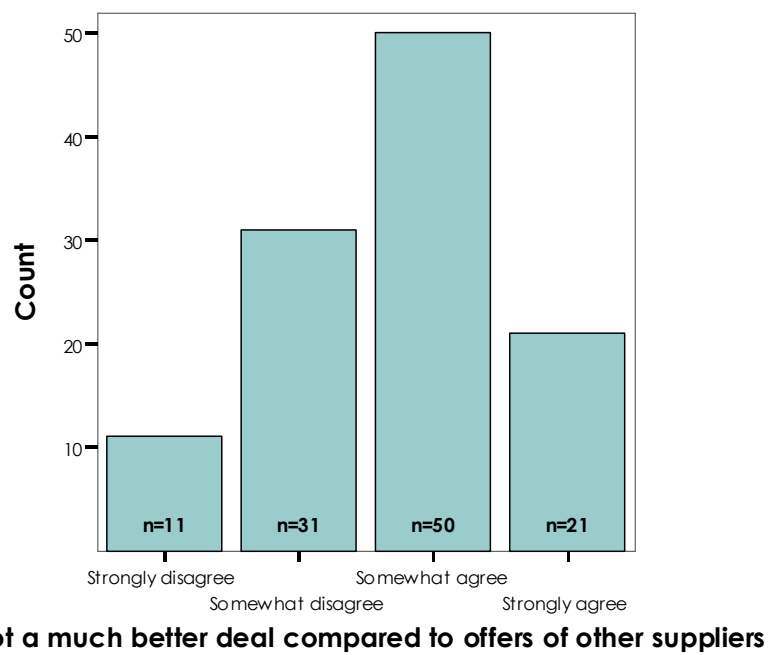


Lastly, perceived buyer power was investigated and respondents had to indicate the company's bargaining power in the appointment and if they received a better deal from the appointed agency compared to offers from other agencies. Figure 7.16 illustrates that 81% of the respondents agreed (somewhat to strongly) that they had bargaining power in the appointment. Data displayed in figure 7.17 indicates that 61% of the respondents agreed that the agency they appointed gave them a much better deal than other agencies.

**Figure 7.16 Industry Bargaining Power**



**Figure 7.17 Attractive Offers**



### **7.2.3.3 Summary of the Appointment of the Current Advertising Agency Section**

Data analysis confirmed that buying activities reported on by respondents complies with the prescriptions set for a complex modified rebuy. The re-appointment of an advertising agency is therefore classified as a complex modified rebuy and is characterized by a normative decision making process.

### **7.2.4 Situational Characteristics**

The purpose of this section was to understand the situational characteristics that have an impact on the appointment of an advertising agency. This study considered switching barriers that represented factors that could make it difficult or costly for consumers to change providers (Jones, Mothersbaugh & Beatty 2000). Black Economic Empowerment (BEE) was also considered as compliance to this government policy could influence the appointment of agencies.

The literature review suggested that switching barriers based on procedural, financial and relationship switching costs would be appropriate to this study. Factor analysis will however consider all the relevant measurement items in order to establish if the measurement items display similar factors within the research context of this study.

#### **7.2.4.1 Switching Barriers**

Switching barriers were informed by financial switching cost (M73, M74, M78 and M80); procedural switching cost (M71, M72, M75, M76, M77, M79 and M46); and relationship switching cost (M48, M49 and M81). See Table 5.4 (p156) for a more detailed description of the measurement items.

Initially all the measurement items, listed above, were included as variables for factor analysis. As a result of data screening in order to avoid multicollinearity and singularity items M46 ( $R < 0.6$ ), M48 ( $R < 0.6$ ), M49 ( $R < 0.6$ ), M78 ( $R > 0.9$ ) and M81 ( $R > 0.9$ ) were removed. Table 7.7 confirmed that the data matrix had sufficient correlations to justify the application of factor analysis. The value of the KMO is 0.767 and the level of significance, measured by Bartlett's Test of Sphericity is lower than 0.001.

**Table 7.7 KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.767
Bartlett's Test of Sphericity	Approx. Chi-Square	423.111
	Df	36
	Sig.	.000

The anti-image matrices also confirmed sufficient correlations among variables and as indicated in table 7.8 below all the highlighted variables displayed in the diagonal are greater than 0.6.

**Table 7.8 Anti-image Matrices**

		M73	M74	M80	M71	M72	M75	M76	M77	M79
Anti-image Covariance	M73	.464	-.215	-.129	-.005	-.080	-.065	.102	-.018	.008
	M74	-.215	.408	.001	-.086	-.005	-.051	-.141	.058	-.021
	M80	-.129	.001	.592	-.011	.018	.027	-.008	-.097	-.221
	M71	-.005	-.086	-.011	.420	-.257	-.023	.037	.025	.002
	M72	-.080	-.005	.018	-.257	.393	.002	-.017	-.117	.043
	M75	-.065	-.051	.027	-.023	.002	.533	-.250	.011	-.027
	M76	.102	-.141	-.008	.037	-.017	-.250	.467	-.113	-.050
	M77	-.018	.058	-.097	.025	-.117	.011	-.113	.559	-.199
	M79	.008	-.021	-.221	.002	.043	-.027	-.050	-.199	.546
Anti-image Correlation	M73	.774(a)	-.494	-.247	-.011	-.188	-.131	.218	-.035	.015
	M74	-.494	.794(a)	.002	-.208	-.013	-.109	-.323	.121	-.044
	M80	-.247	.002	.804(a)	-.023	.037	.047	-.016	-.169	-.389
	M71	-.011	-.208	-.023	.732(a)	-.632	-.048	.084	.051	.004
	M72	-.188	-.013	.037	-.632	.729(a)	.005	-.040	-.250	.093
	M75	-.131	-.109	.047	-.048	.005	.803(a)	-.501	.020	-.051
	M76	.218	-.323	-.016	.084	-.040	-.501	.721(a)	-.221	-.099
	M77	-.035	.121	-.169	.051	-.250	.020	-.221	.793(a)	-.360
	M79	.015	-.044	-.389	.004	.093	-.051	-.099	-.360	.773(a)

(a) Measures of Sampling Adequacy(MSA)

Table 7.9 below indicates that all the initial communalities were greater than 0.255 in line with factor analysis requirements. Three factors were obtained based on Eigenvalues (greater than 1) as indicated in table 7.10.

**Table 7.9 Communalities**

	Initial	Extraction
Involve hidden costs/charges	.536	.479
Bad deal financially	.592	.598
Involve up-front costs	.408	.499
Service will not meet expectations	.580	.679
Temporally bad service	.607	.671
Don't have the time to evaluate substitutes	.467	.610
Take too much time/effort to evaluate substitutes	.533	.679
Take effort to get up to speed	.441	.465
Switching requires a lot of formalities	.454	.679

Extraction Method: Principal Axis Factoring.

**Table 7.10 Total Variance Explained**

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.940	43.783	43.783	3.537	39.301	39.301	2.121	23.569	23.569
2	1.496	16.623	60.405	1.122	12.462	51.763	1.696	18.843	42.412
3	1.090	12.107	72.512	.702	7.801	59.564	1.544	17.152	59.564
4	.765	8.495	81.007						
5	.449	4.989	85.996						
6	.403	4.478	90.474						
7	.373	4.146	94.621						
8	.263	2.921	97.542						
9	.221	2.458	100.000						

Extraction Method: Principal Axis Factoring.

Table 7.11 indicates the factor loadings for each variable. The absolute values less than 0.5 were suppressed to ease interpretation. Factor one was labelled 'Switching Uncertainty' as the four variables displaying high loadings all relates to uncertainty prior to switching. Factor two was labelled 'Switching Effort' as the three variables displaying high loadings indicated some effort associated with switching and lastly factor three was labelled 'Switching Time' as the two variables that display high loading relates to time constraints.



**Table 7.11 Rotated Factor Matrix(a)**

	Factor		
	1	2	3
Service will not meet expectations	.814		
Temporally bad service	.796		
Involve hidden costs/charges	.594		
Bad deal financially	.569		
Switching requires a lot of formalities		.797	
Involve up-front costs		.667	
Take effort to get up to speed		.617	
Take too much time/effort to evaluate substitutes			.765
Don't have the time to evaluate substitutes			.730

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.

(a) Rotation converged in 5 iterations.

Three new factors were therefore identified to explain switching barriers. Next the reliability of the new factors was calculated. Factors with a Cronbach's Alpha higher than 0.6 will be described in terms of descriptive statistics (Hair, Anderson, Tatham & Black 2005; Field 2005).

### **c. Switching uncertainty**

Switching uncertainty is the result of four variables namely; I worry that the service offered by other agencies won't be as good as expected (M71); the company might end up with poor service for a while (M72); switching will probably involve hidden costs/charges (M73); and the company could end up with a bad deal financially (M74). As indicated by a Cronbach's Alpha of 0.835 (see table 7.12) this new factor is reliable.

**Table 7.12 Switching Uncertainty Reliability Statistics**

Cronbach's Alpha	N of Items
.835	4

Considering scale statistics (table 7.13), item statistics (table 7.14), and item total statistics (table 7.15) it is evident that the new factor 'switching uncertainty' is reliable and composite of four measurement items.

**Table 7.13 Switching Uncertainty Scale Statistics**

Mean	Variance	Std. Deviation	N of Items
11.06	8.076	2.842	4

**Table 7.14 Switching Uncertainty Item Statistics**

	Mean	Std. Deviation	N
Service will not meet expectations	2.96	.830	114
Temporally bad service	2.92	.822	114
Involve hidden costs/charges	2.78	.919	114
Bad deal financially	2.39	.899	114

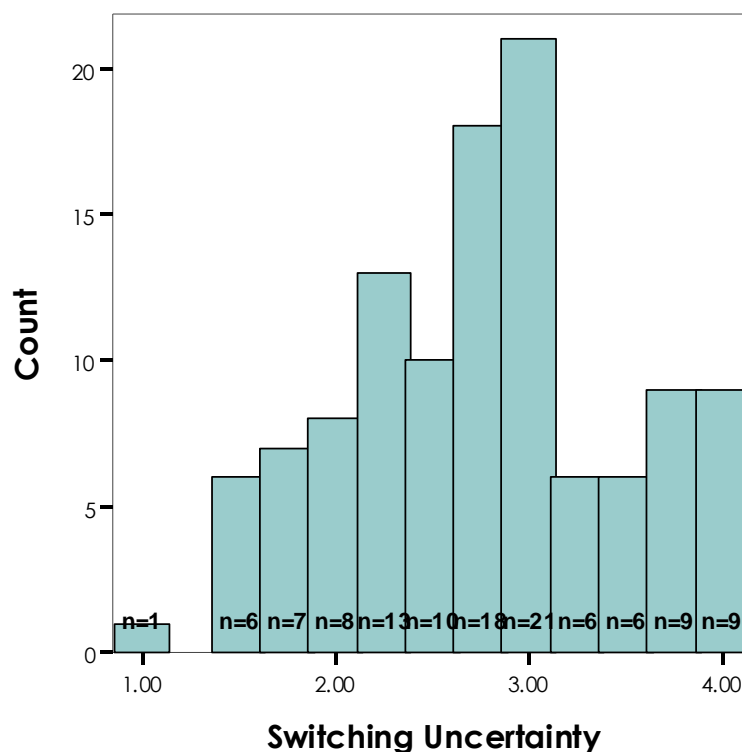
**Table 7.15 Switching Uncertainty Item-Total Statistics**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Service will not meet expectations	8.10	4.884	.682	.785
Temporally bad service	8.14	4.936	.675	.788
Involve hidden costs/charges	8.28	4.646	.652	.799
Bad deal financially	8.67	4.702	.659	.795

The next step was to describe this factor statistically to determine if respondents agreed that switching uncertainty is experienced in the event of switching agencies. Respondents had to indicate their level of agreement and responses could vary from "1" if the respondent strongly disagreed with the statement to "4" if the respondent strongly agreed.

Figure 7.18 indicated a positively skewed distribution of the data and a mean of 2.77 indicating the majority of the respondents agreed that switching uncertainty is present when advertisers switch between agencies.

**Figure 7.18 Switching Uncertainty**



	N	Minimum	Maximum	Mean	Std. Deviation
Switching Uncertainty	114	1.00	4.00	2.7654	.71045
Valid N (listwise)	114				

#### **d. Switching effort**

Switching effort is the result of three variables namely; switching to a new agency would involve some up-front cost (M80); even after switching, it would take effort to 'get up to speed' with the new advertising agency (M77); there are a lot of formalities involved in switching to a new advertising agency (M79). As indicated by a Cronbach's Alpha of 0.766 (see table 7.16) this new factor is reliable.

**Table 7.16 Switching Effort Reliability Statistics**

Cronbach's Alpha	N of Items
.766	3

Considering scale statistics (table 7.17), item statistics (table 7.18), and item total statistics (table 7.19) it is evident that the new factor 'switching effort' is reliable and composite of three measurement items.

**Table 7.17 Switching Effort Item Statistics**

	Mean	Std. Deviation	N
Take effort to get up to speed	3.03	.799	112
Switching requires a lot of formalities	2.62	.979	112
Involve up-front costs	2.48	.849	112

**Table 7.18 Switching Effort Item-Total Statistics**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Take effort to get up to speed	5.10	2.612	.577	.714
Switching requires a lot of formalities	5.51	1.982	.653	.628
Involve up-front costs	5.64	2.466	.583	.704

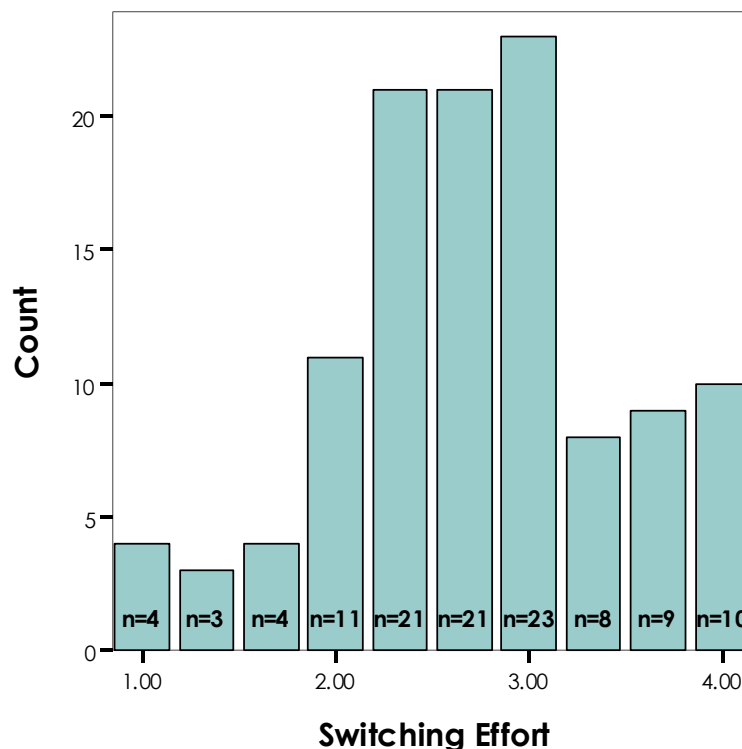
**Table 7.19 Switching Effort Scale Statistics**

Mean	Variance	Std. Deviation	N of Items
8.13	4.741	2.177	3

Next the factor is describe statistically to determine if respondents agreed that switching effort is considered in the event of switching agencies. Respondents had to indicate their level of agreement and responses could vary from "1" if the respondent strongly disagreed with the statement to "4" if the respondent strongly agreed.

Figure 7.19 indicated positively skewed distribution of the data and a mean of 2.72 that indicated that the majority of the respondents agreed that switching effort is present when they switch between agencies.

**Figure 7.19 Switching Effort**



	N	Minimum	Maximum	Mean	Std. Deviation
Switching Effort	114	1.00	4.00	2.7222	.72992
Valid N (listwise)	114				

#### **e. Switching time**

Switching time is the result of two variables namely; the company cannot afford the time to get the information to fully evaluate other agencies (M75); and comparing the benefits of our advertising agency with the benefits of other agencies take too much time/effort, even if I have the information (M76). As indicated by a Cronbach's Alpha of 0.767(see table 7.20) this new factor is reliable.

**Table 7.20 Switching Time Reliability Statistics**

Cronbach's Alpha	N of Items
.767	2

Considering scale statistics (table 7.21), item statistics (table 7.22), and item total statistics (table 7.23) it is evident that the new factor 'switching time' is reliable and composite of two measurement items.

**Table 7.21 Switching Time Scale Statistics**

Mean	Variance	Std. Deviation	N of Items
4.13	2.770	1.664	2

**Table 7.22 Switching Time Item Statistics**

	Mean	Std. Deviation	N
Don't have the time to evaluate substitutes	2.13	.964	114
Take too much time/effort to evaluate substitutes	2.00	.882	114

**Table 7.23 Switching Time Item-Total Statistics**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Don't have the time to evaluate substitutes	2.00	.779	.624	.(a)
Take too much time/effort to evaluate substitutes	2.13	.929	.624	.(a)

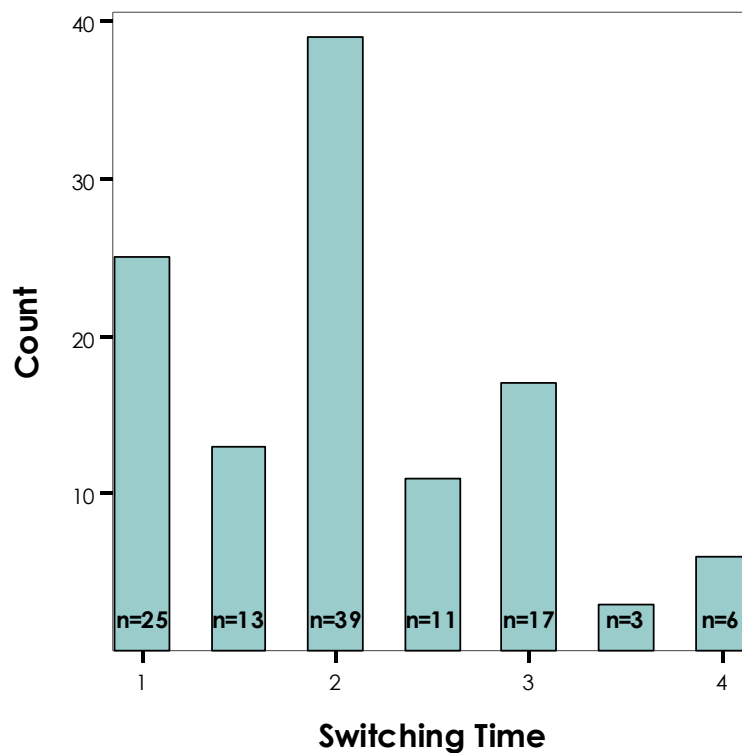
(a) The value is negative due to a negative average covariance among items.

This factor is describe statistically below to determine if respondents agreed that switching time is considered in the event of switching agencies. Respondents had to indicate their level of agreement and responses could vary from "1" if the respondent strongly disagreed with the statement to "4" if the respondent strongly agreed.

Figure 7.20 indicated negatively skewed distribution of the data and a mean of 2.07 that indicated that the majority of the respondents did

not agreed that switching time is a barrier when they switch between agencies.

**Figure 7.20 Switching Time**



	N	Minimum	Maximum	Mean	Std. Deviation
Switching Time	114	1	4	2.07	.832
Valid N (listwise)	114				

Switching barriers would therefore include switching uncertainty and switching effort but not the time required to switch from one agency to another. Next black economic empowerment will be addressed.

#### **7.2.4.2 Black Economic Empowerment**

Respondents were asked to indicate which issues, relating to BEE, were considered when the agency was appointed. Respondent could have selected more than one issue. Issues covered included:

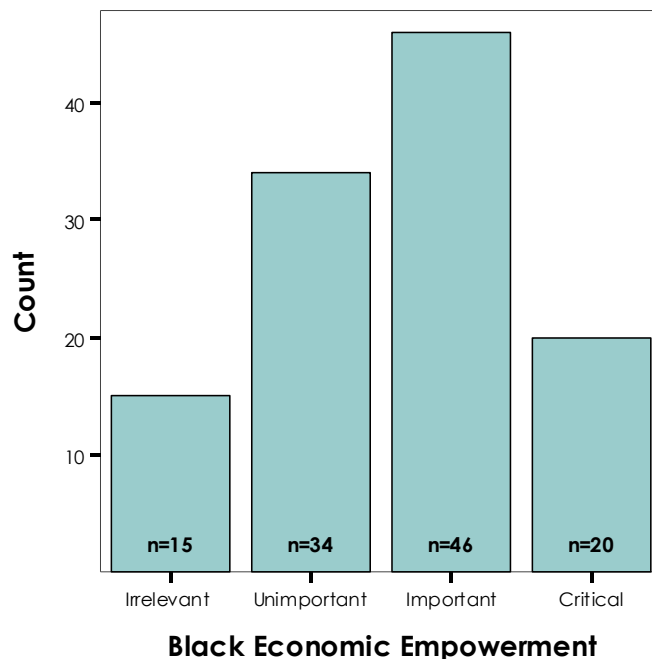
- Race composition of the agency's ownership
- Race composition of the agency's management
- Employment equity policy of the agency
- Employment equity numbers of the agency
- BEE accreditation

Data obtained for this question will however not be used for data analysis as many respondents did not answer the question. As the questionnaire did not provide an option for the respondents to indicate that they did not consider any of the above options it was not possible to determine the reason for the low response rate. The low response rate could therefore be contributed to respondents that did indeed not consider BEE issues or it could be the result of a questionnaire design error.

Respondents were however requested to indicate, in the event of appointing a new advertising agency, how important the BEE was. Figure 7.21 illustrates that only 20 respondents deemed BEE as critical compared to 42% of the respondents considering BEE as unimportant or irrelevant.



**Figure 7.21 Importance of Black Economic Empowerment**



#### **7.2.4.3 Summary of Situational Characteristics Section**

Data analysis indicated that switching barriers take the form of switching uncertainty and switching effort. Government imposed rules, in the form of BEE, is also considered by the majority of respondents as important in the decision of an advertising agency.

In order to support further analysis (hypothesis testing and correlation analysis) the next section will investigate the data quality.

### **7.3 Section 2 – Consideration Set Development**

This section will investigate the data quality in order to determine if the data correctly represents the real-world constructs to which it refers. This is followed by hypothesis testing, in order to accept or reject the hypotheses stated in Chapter Five. Next, variables of retention are empirically tested in order to present a consideration set for agency replacement in the South African advertising industry.

### 7.3.1 Data Quality

Chapter Five considered measures employed to ensure reliability of the data collection technique used (see section 5.3.5.1, p166) in order to yield consistent findings. This chapter also addressed the measures used in this study to improve the validity of the data (see section 5.3.5.2, p167). The final test of data quality is to conclude that data correctly represent the real-world construct to which it refers. As retention was the research phenomenon, under consideration for this study, the survey probed respondents to indicate their level of retention intent on two separate occasions. Firstly, the respondent was asked; "If the working conditions remain the same, what is the probability that you will continue your relationship with the agency?" Respondents had to indicate the propensity to re-appoint as a percentage and were given an option between four categories with a 25% interval. Secondly, respondents had to indicate their level of agreement with the following statement, "I would renew the contract of this agency if I was given this option today". The level of agreement was expressed by selecting a one of four options that indicated on a Likert scale different levels of agreement.

Data quality was established by cross tabulation of these two items as indicated in table 7.24. Table 7.25 indicates a Chi square value of 46.297 with 6 degrees of freedom (df). The significance of less than 0.001 (Asymp. Sig.) is lower than the optimum cut-off P-value of 0.05. It can therefore be concluded that the probability of the values in this table occurring by chance alone is extremely unlikely to be explained by chance factors alone. The Phi value of 0.649 and Cramer's V value of 0.459 confirmed a moderate to strong relationship between the two categorical variables (see table 7.26). These results are supportive of high quality data.

**Table 7.24 Cross Tabulation – Propensity to Re-appoint and Will Renew the Contract Today**

			Will renew the contract today				Total
			Strongly disagree	Somewhat disagree	Somewhat agree	Strongly agree	
Propensity to re-appoint	≤ 50%	Count	4	2	0	0	6
		% within Propensity to re-appoint	66.7%	33.3%	.0%	.0%	100.0%
	51-75%	Count	2	8	12	0	22
		% within Propensity to re-appoint	9.1%	36.4%	54.5%	.0%	100.0%
	≥ 76%	Count	10	5	23	44	82
		% within Propensity to re-appoint	12.2%	6.1%	28.0%	53.7%	100.0%
	Total	Count	16	15	35	44	110
		% within Propensity to re-appoint	14.5%	13.6%	31.8%	40.0%	100.0%

**Table 7.25 Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	46.297(a)	6	.000
Likelihood Ratio	50.981	6	.000
Linear-by-Linear Association	24.124	1	.000
N of Valid Cases	110		

(a) 6 cells (50.0%) have expected count less than 5. The minimum expected count is .82.

**Table 7.26 Symmetric Measures**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Phi	.649			.000
	Cramer's V	.459			.000
Ordinal by Ordinal	Kendall's Tau-b	.453	.065	5.642	.000
	N of Valid Cases	110			

(a) Not assuming the null hypothesis.

### 7.3.2 Hypotheses Testing

This section will either accept or reject the stated hypotheses based on probability that two categorical data variables are associated. This probability will be calculated using the Chi square test.

#### Hypothesis 1

In the case of Hypothesis 1 'rules and norms of exchange' are considered to be the independent variable and 'consideration set inclusion' the dependent variable. Consideration set inclusion will be determined by two measurement items namely, 'propensity to re-appoint the agency' and 'will re-new the contract'. Data are summarized in a contingency table which provides the input for the statistical analysis below. Responses captured for 'underlying market conditions' (representing rules and norms of exchange) indicated low cell frequencies for the 'irrelevant' and 'unimportant' categories and were combined and recoded as 'unimportant'. The same logic was applied to the '0 – 25%' and '26-50%' category options for 'propensity to re-appoint'. These options were combined and recoded as ' $\leq 50\%$ '.

$H_1$ : There is a positive relationship between 'rules and norms of exchange' and consideration set inclusion.

$H_0^1$ : There is no relationship between 'rules and norms of exchange' and consideration set inclusion.

**Table 7.27 Cross Tabulation – H<sub>1</sub> -Underlying Market Conditions and Will Renew the Contract Today**

			Will renew the contract today				
			Strongly disagree	Somewhat disagree	Somewhat agree	Strongly agree	Total
Underlying market conditions	Not important	Count	6	6	9	17	38
		% within Underlying market conditions	15.8%	15.8%	23.7%	44.7%	100.0%
	Important	Count	11	9	21	22	63
		% within Underlying market conditions	17.5%	14.3%	33.3%	34.9%	100.0%
	Critical	Count	0	3	5	5	13
		% within Underlying market conditions	.0%	23.1%	38.5%	38.5%	100.0%
Total	Count		17	18	35	44	114
	% within Underlying market conditions		14.9%	15.8%	30.7%	38.6%	100.0%

**Table 7.28 H<sub>1</sub> Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.358(a)	6	.628
Likelihood Ratio	6.249	6	.396
Linear-by-Linear Association	.030	1	.863
N of Valid Cases	114		

(a) 3 cells (25.0%) have expected count less than 5. The minimum expected count is 1.94.

**Table 7.29 H<sub>1</sub> Symmetric Measures**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Phi	.196			.628
	Cramer's V	.138			.628
Ordinal by Ordinal	Kendall's Tau-b	-.014	.081	-.166	.868
	N of Valid Cases	114			

(a) Not assuming the null hypothesis.

(b) Using the asymptotic standard error assuming the null hypothesis.

Table 7.28 indicates a Chi square value of 4.358 with 6 degrees of freedom (df). The significance value of 0.628 (Asymp. Sig.) is higher than the optimum cut-off P-value of 0.05 established as appropriate in Chapter Five. The Phi value of 0.196 showed that the association between the underlying marketing conditions (rules and norms of exchange) and the contract renewal was close to perfect

independence (0), indicating that these variables are almost perfectly independent. The Cramer's V value of 0.138 showed that the association between the underlying marketing conditions (rules and norms of exchange) and the contract renewal, although weak, was positive. However, Kendall's Tau-b indicated negative relationship with a value of -0.014, significant at 0.868 (Approx. Sig).

**Table 7.30 Cross Tabulation – H<sub>1</sub> -Underlying Market Conditions and Propensity to Re-appoint**

			Propensity to re-appoint			Total
			≤ 50%	51-75%	≥75%	
Underlying market conditions	Not important	Count	2	8	28	38
		% within Underlying market conditions	5.3%	21.1%	73.7%	100.0%
	Important	Count	4	10	44	58
		% within Underlying market conditions	6.9%	17.2%	75.9%	100.0%
	Critical	Count	0	5	9	14
		% within Underlying market conditions	.0%	35.7%	64.3%	100.0%
Total	Count		6	23	81	110
	% within Underlying market conditions		5.5%	20.9%	73.6%	100.0%

**Table 7.31 H<sub>1</sub> Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.034(a)	4	.552
Likelihood Ratio	3.552	4	.470
Linear-by-Linear Association	.026	1	.871
N of Valid Cases	110		

(a) 4 cells (44.4%) have expected count less than 5. The minimum expected count is .76.

**Table 7.32 H<sub>1</sub> Symmetric Measures**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Phi	.166			.552
	Cramer's V	.117			.552
Ordinal by Ordinal	Kendall's Tau-b	-.026	.090	-.292	.770
N of Valid Cases		110			

(a) Not assuming the null hypothesis.

(b) Using the asymptotic standard error assuming the null hypothesis.

The results obtained in tables 7.28 and 7.29 were confirmed by the results listed in tables 7.31 and 7.32. Table 7.31 indicates a Chi square value of 3.034 with 4 degrees of freedom (df). The significance level of 0.552 (Asymp. Sig.) is also much higher than the optimum cut-off P-value of 0.05. The Phi value of 0.166 showed that the association between the underlying marketing conditions (rules and norms of exchange) and the contract renewal were close to perfect independence (0), indicating that these variables are almost perfectly independent. The Cramer's V value of 0.117 showed that the association between the underlying marketing conditions (rules and norms of exchange) and the contract renewal, although weak, was positive. However, Kendall's Tau-b indicated negative relationship valued at -0.026, significant at 0.770 (Approx. Sig).

Considering the outcome of the analyses, it became clear that there is no significant relationship between the 'rules and norms of exchange' and 'consideration set inclusion'. The null hypothesis is thus accepted and the hypothesis rejected.

H <sub>1</sub> : There is a positive relationship between 'rules and norms of exchange' and consideration set inclusion.	<b>REJECTED</b>
H <sub>0</sub> <sup>1</sup> : There is no relationship between 'rules and norms of exchange' and consideration set inclusion.	<b>ACCEPTED</b>

## Hypothesis 2

In the case of Hypothesis 2 'offer of exchange' is considered to be the independent variable and 'consideration set inclusion' the dependent variable. Consideration set inclusion will be determined by two measurement items namely 'propensity to re-appoint the agency' and 'will re-new the contract'. Data are summarized in a contingency table (see table 7.32) which provides the input for the statistical analysis

below. Responses captured for 'current service offering' indicated low cell frequencies for the 'irrelevant', 'unimportant' and 'ilimportant' categories and these three categories were combined and recoded as 'not critical'. The same logic was applied to the '0 – 25%' and '26-50%' category options for 'propensity to re-appoint'. These options were combined and recoded as ' $\leq 50\%$ '.

H<sub>2</sub>: There is a positive relationship between 'offer of exchange' and consideration set inclusion.

H<sub>0</sub><sup>2</sup>: There is no relationship between 'offer of exchange' and consideration set inclusion.

Table 7.34 below indicates a Chi square value of 11.236 with 3 degrees of freedom (df). The significance level of 0.011 (Asymp. Sig.) is lower than the optimum cut-off P-value of 0.05. It can therefore be concluded that the relationship between contract renewal and current service offering is extremely unlikely to be explained by chance factors alone. The Phi value of 0.313 and Cramer's V value of 0.313 are indicative of a moderate positive association between the current service offering (offer of exchange) and the contract renewal. This is further supported by the Kendall's Tau-b level of 0.209.



**Table 7.33 Cross Tabulation – H<sub>2</sub> Current Service Offering and Will Renew the Contract Today**

			Will renew the contract today				Total
			Strongly disagree	Somewhat disagree	Somewhat agree	Strongly agree	
Current service offering	Not critical	Count	6	11	17	9	43
		% within Current service offering	14.0%	25.6%	39.5%	20.9%	100.0%
	Critical	Count	11	7	19	35	72
		% within Current service offering	15.3%	9.7%	26.4%	48.6%	100.0%
Total		Count	17	18	36	44	115
		% within Current service offering	14.8%	15.7%	31.3%	38.3%	100.0%

**Table 7.34 H<sub>2</sub> Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.236(a)	3	.011
Likelihood Ratio	11.520	3	.009
Linear-by-Linear Association	3.965	1	.046
N of Valid Cases	115		

(a) 0 cells (.0%) have expected count less than 5. The minimum expected count is 6.36.

**Table 7.35 H<sub>2</sub> Symmetric Measures**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Phi	.313			.011
	Cramer's V	.313			.011
Ordinal by Ordinal	Kendall's Tau-b	.209	.082	2.547	.011
N of Valid Cases		115			

(a) Not assuming the null hypothesis.

(b) Using the asymptotic standard error assuming the null hypothesis.

The results obtained in tables 7.34 and 7.35 were confirmed by the results listed in tables 7.37 and 7.38. Table 7.37 below indicates a Chi square value of 6.540 with 2 degrees of freedom (df). The significance of .038 (Asymp. Sig.) is also lower than the optimum cut-off P-value of 0.05. It can therefore be concluded that the relationship between the propensity to re-appoint and current service offering is extremely

unlikely to be explained by chance factors alone. The Phi value of 0.243 and Cramer's V value of 0.243 showed that the association between the current service offering and propensity to re-appoint is weak. Lastly, the Kendall's Tau-b value of 0.143, significant at the 0.146 level (Approx. Sig) confirms the weak association.

**Table 7.36 Cross Tabulation – H<sub>2</sub> Current Service Offering and Propensity to Re-appoint**

			Propensity to re-appoint			Total
			≤ 50%	51-75%	≥ 76%	
Current service offering	Not critical	Count	5	8	26	39
		% within Current service offering	12.8%	20.5%	66.7%	100.0%
	Critical	Count	1	15	56	72
		% within Current service offering	1.4%	20.8%	77.8%	100.0%
Total		Count	6	23	82	111
		% within Current service offering	5.4%	20.7%	73.9%	100.0%

**Table 7.37 H<sub>2</sub> Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.540(a)	2	.038
Likelihood Ratio	6.350	2	.042
Linear-by-Linear Association	3.932	1	.047
N of Valid Cases	111		

(a) 2 cells (33.3%) have expected count less than 5. The minimum expected count is 2.11.

**Table 7.38 H<sub>2</sub> Symmetric Measures**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Phi	.243			.038
	Cramer's V	.243			.038
Ordinal by Ordinal	Kendall's Tau-b	.143	.096	1.452	.146
N of Valid Cases		111			

(a) Not assuming the null hypothesis.

(b) Using the asymptotic standard error assuming the null hypothesis.

Considering the outcome of the analyses, it became clear that there is a significant relationship between the 'offer of exchange' and

'consideration set inclusion'. The null hypothesis is thus rejected and the hypothesis accepted.

H <sub>2</sub> : There is a positive relationship between "Resource of Exchange" and consideration set inclusion.	<b>ACCEPTED</b>
H <sub>0</sub> <sup>2</sup> : There is no relationship between "Resources of Exchange" and consideration set inclusion.	<b>REJECTED</b>

### Hypothesis 3

Hypothesis 3 considered 'relationship of exchange' to be the independent variable and 'consideration set inclusion' the dependent variable. Consideration set inclusion will be determined by two measurement items namely 'propensity to re-appoint the agency' and 'will re-new the contract'. Data are summarized in contingency tables (see tables 7.39 and 7.42) which provide the input for the statistical analysis below. Responses captured for 'working relationship' indicated low cell frequencies for the 'irrelevant', 'unimportant' and 'important' categories and were combined and recoded as 'not critical'. The same logic was applied to the '0 – 25%' and '26-50%' category options for 'propensity to re-appoint'. These options were combined and recoded as ' $\leq 50\%$ '.

H <sub>3</sub> : There is a positive relationship between 'relationship of exchange' and consideration set inclusion.
H <sub>0</sub> <sup>3</sup> : There is no relationship between 'relationship of exchange' and consideration set inclusion.

Table 7.40 below indicates a Chi square value of 7.217 with 3 degrees of freedom (df). The significance of .065 (Asymp. Sig.) is higher than the optimum cut-off P-value of 0.05. The Phi value of 0.251 and Cramer's V value of 0.251, are indicative of a weak association between the

working relationship (relationship of exchange) and the contract renewal. This association although weak, was positive. These results are in line with the Kendall's Tau-b value of 0.223, significant at 0.007 level. This level of significance fall below the optimum cut of value and the correlations will therefore be considered as significant. The results obtained in tables 7.40 and 7.41 did not correspond to the results listed in tables 7.43 and 7.44.

**Table 7.39 Cross Tabulation – H<sub>3</sub> Working Relationship and Will Renew the Contract Today**

			Will renew the contract today				Total
			Strongly disagree	Somewhat disagree	Somewhat agree	Strongly agree	
Working relationship	Not critical	Count	8	9	14	9	40
		% within Working relationship	20.0%	22.5%	35.0%	22.5%	100.0 %
	Critical	Count	9	9	22	35	75
		% within Working relationship	12.0%	12.0%	29.3%	46.7%	100.0 %
Total		Count	17	18	36	44	115
		% within Working relationship	14.8%	15.7%	31.3%	38.3%	100.0 %

**Table 7.40 H<sub>3</sub> Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.217(a)	3	.065
Likelihood Ratio	7.441	3	.059
Linear-by-Linear Association	5.898	1	.015
N of Valid Cases	115		

(a) 0 cells (.0%) have expected count less than 5. The minimum expected count is 5.91.

**Table 7.41 H<sub>3</sub> Symmetric Measures**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Phi	.251			.065
	Cramer's V	.251			.065
Ordinal by Ordinal	Kendall's Tau-b	.223	.082	2.706	.007
N of Valid Cases		115			

(a) Not assuming the null hypothesis.

(b) Using the asymptotic standard error assuming the null hypothesis.

Table 7.43 below indicates a Chi square value of 6.084 with 2 degrees of freedom (df). The significance of .048 (Asymp. Sig.) is lower than the optimum cut-off P-value of 0.05. The Phi value of 0.243 and Cramer's V value of 0.243 are indicative of a weak positive association between the working relationship (relationship of exchange) and the propensity to re-appoint. These results are in line with the Kendall's Tau-b value of 0.223, significant at 0.024 level.

**Table 7.42 Cross Tabulation – H<sub>3</sub> Working Relationship and Propensity to Re-appoint**

			Propensity to re-appoint			Total
			Less than 50%	51-75%	More than 76%	
Working relationship	Not critical	Count	4	11	23	38
		% within Working relationship	10.5%	28.9%	60.5%	100.0%
	Critical	Count	2	12	59	73
		% within Working relationship	2.7%	16.4%	80.8%	100.0%
Total	Count		6	23	82	111
	% within Working relationship		5.4%	20.7%	73.9%	100.0%

**Table 7.43 H<sub>3</sub> Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.084(a)	2	.048
Likelihood Ratio	5.853	2	.054
Linear-by-Linear Association	6.028	1	.014
N of Valid Cases	111		

(a) 2 cells (33.3%) have expected count less than 5. The minimum expected count is 2.05.

**Table 7.44 H<sub>3</sub> Symmetric Measures**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Phi	.234			.048
	Cramer's V	.234			.048
Ordinal by Ordinal	Kendall's Tau-b	.223	.095	2.262	.024
	N of Valid Cases	111			

(a) Not assuming the null hypothesis.

(b) Using the asymptotic standard error assuming the null hypothesis.

Considering the outcome of the analyses, it became clear that there is a significant relationship between the 'relationship of exchange' and 'consideration set inclusion'. The null hypothesis is thus rejected and the hypothesis accepted.

H <sub>3</sub> : There is a positive relationship between 'relationship of exchange' and consideration set inclusion.	<b>ACCEPTED</b>
H <sub>0</sub> <sup>3</sup> : There is no relationship between 'relationship of exchange' and consideration set inclusion.	<b>REJECTED</b>

#### **Hypothesis 4**

Hypothesis 4 considered 'satisfaction' to be the independent variable and 'retention' to be the dependent variable. Retention will be determined by two measurement items namely 'propensity to re-appoint the agency' and 'will re-new the contract'. Satisfaction is measured by one item namely "how will you describe the overall level of satisfaction of your company with the outcomes of this agency in the past year". Data are summarized in contingency tables (see tables 7.45 and 7.48) which provide the input for the statistical analysis below. Responses captured for 'overall satisfaction' indicated low cell frequencies for the 'very dissatisfied' and 'dissatisfied' categories and were combined and recoded as 'dissatisfied'. The same logic was applied to the '0 – 25%' and '26-50%' category options for 'propensity to re-appoint'. These options were combined and recoded as ' $\leq 50\%$ '.

H <sub>4</sub> : There is a positive relationship between advertiser satisfaction and agency retention.
H <sub>0</sub> <sup>4</sup> : There is no relationship between advertiser satisfaction agency retention.

Table 7.46 below indicates a Chi square value of 45.996 with 4 degrees of freedom (df). The significance level is indicated at a level of less than 0.001 (Asymp. Sig.) which is lower than the optimum cut-off P-value of 0.05. The Phi value of 0.650 and Cramer's V value of 0.459, are indicative of a moderate to strong association between the client satisfaction and the propensity to re-appoint the agency (retention). The Kendall's Tau-b value of 0.454 confirms the moderate strength of the relationship.

**Table 7.45 Cross Tabulation - H<sub>4</sub> Overall Satisfaction and Propensity to Re-appoint**

		Propensity to re-appoint			Total
		≤ 50%	51-75%	> 76%	
Overall satisfaction	Dissatisfied	5	4	3	12
	Satisfied	1	18	45	64
	Extremely satisfied	0	1	32	33
Total		6	23	80	109

**Table 7.46 H<sub>4</sub> Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	45.996(a)	4	.000
Likelihood Ratio	35.348	4	.000
Linear-by-Linear Association	28.744	1	.000
N of Valid Cases	109		

(a) 4 cells (44.4%) have expected count less than 5. The minimum expected count is .66.

**Table 7.47 H<sub>4</sub> Symmetric Measures**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Phi	.650			.000
	Cramer's V	.459			.000
Ordinal by Ordinal	Kendall's Tau-b	.454	.065	5.227	.000
	Spearman Correlation	.472	.070	5.542	.000(c)
Interval by Interval	Pearson's R	.516	.072	6.229	.000(c)
N of Valid Cases		109			

(a) Not assuming the null hypothesis.

(b) Using the asymptotic standard error assuming the null hypothesis.

(c) Based on normal approximation.

The results obtained in tables 7.49 and 7.50 did correspond to the results listed in tables 7.46 and 7.47.

Table 7.49 below indicates a Chi square value of 48.469 with 4 degrees of freedom (df). The significance level is indicated at a level of less than 0.001 (Asymp. Sig.) which is lower than the optimum cut-off P-value of 0.05. The Phi value of 0.655, Cramer's V value of 0.463, and a Kendall's Tau-b value of 0.484 are descriptive of the relationship strength (moderate to strong).

**Table 7.48 Cross Tabulation - H<sub>4</sub> Overall Satisfaction and Will Renew the Contract Today**

		Will renew the contract today			Total
		Somewhat disagree	Somewhat agree	Strongly agree	
Overall satisfaction	Dissatisfied	14	1	0	15
	Satisfied	16	30	19	65
	Extremely satisfied	5	5	23	33
Total		35	36	42	113

**Table 7.49 H<sub>4</sub> Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	48.469(a)	4	.000
Likelihood Ratio	47.855	4	.000
Linear-by-Linear Association	30.916	1	.000
N of Valid Cases	113		

(a) 2 cells (22.2%) have expected count less than 5. The minimum expected count is 4.65.

**Table 7.50 H<sub>4</sub> Symmetric Measures**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Phi	.655			.000
	Cramer's V	.463			.000
Ordinal by Ordinal	Kendall's Tau-b	.484	.074	6.072	.000
N of Valid Cases		113			

(a) Not assuming the null hypothesis.

(b) Using the asymptotic standard error assuming the null hypothesis.



Considering the outcome of the analyses, it became clear that there is a significant relationship between the 'client satisfaction' and 'client retention'. The null hypothesis is thus rejected and the hypothesis accepted.

H <sub>4</sub> : There is a positive relationship between advertiser satisfaction and agency retention.	<b>ACCEPTED</b>
H <sub>0</sub> <sup>4</sup> : There is no relationship between advertiser satisfaction agency retention.	<b>REJECTED</b>

### Hypothesis 5

Hypothesis 5 considered 'retention' to be the independent variable and 'loyalty' the dependent variable. Retention will be determined by two measurement items namely 'propensity to re-appoint the agency' and 'will re-new the contract'. Loyalty is measured by one item namely "on a scale of 1 to 10, how loyal are you to this service provider". Data are summarized in contingency tables (see tables 7.50 and 7.53) which provide the input for the statistical analysis below. Responses captured for 'level of loyal' indicated low cell frequencies and were combined and recoded from levels 1-5 to 'low', levels 6-7 to 'medium', levels 8-9 to 'high' and lastly level 10 to 'very high'. The same logic was applied to the '0 – 25%' and '26-50%' category options for 'propensity to re-appoint'. These options were combined and recoded as ' $\leq 50\%$ '.

H <sub>5</sub> : There is a positive relationship between agency retention and agency loyalty.
H <sub>0</sub> <sup>5</sup> : There is no relationship between agency retention and agency loyalty.

Table 7.52 below indicates a Chi square value of 39.591 with 6 degrees of freedom (df). The significance level is indicated at a level of less than 0.001 (Asymp. Sig.) which is lower than the optimum cut-off P-value of 0.05. The Phi value of 0.611 and Cramer's V value of 0.432, are indicative of a moderate to strong association between the propensity to re-appoint and client loyalty. The Kendall's Tau-b value of 0.474 confirms the moderate strength of the relationship.

**Table 7.51 Cross Tabulation - H<sub>5</sub> Propensity to Re-appoint and Loyalty to Agency**

	Loyalty to agency				Total
	Low	Medium	High	Very high	
Propensity to re-appoint ≤ 50%	6	0	0	0	6
51-75%	10	8	3	1	22
≥ 76%	9	15	33	21	78
Total	25	23	36	22	106

**Table 7.52 H<sub>5</sub> Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	39.591 (a)	6	.000
Likelihood Ratio	39.146	6	.000
Linear-by-Linear Association	29.805	1	.000
N of Valid Cases	106		

(a) 6 cells (50.0%) have expected count less than 5. The minimum expected count is 1.25.

**Table 7.53 H<sub>5</sub> Symmetric Measures**

		Value	Asymp. Std. Error (a)	Approx. T (b)	Approx. Sig.
Nominal by Nominal	Phi	.611			.000
	Cramer's V	.432			.000
Ordinal by Ordinal	Kendall's Tau-b	.474	.066	5.762	.000
N of Valid Cases		106			

(a) Not assuming the null hypothesis.

(b) Using the asymptotic standard error assuming the null hypothesis.

The results obtained in tables 7.55 and 7.56 corresponded to the results listed in tables 7.52 and 7.53.

Table 7.55 below indicates a Chi square value of 54.447 with 4 degrees of freedom (df). The significance level is indicated at a level of less than 0.001 (Asymp. Sig.) which is lower than the optimum cut-off P-value of 0.05. The Phi value of 0.704, Cramer's V value of 0.497 and a Kendall's Tau-b value of 0.418 are descriptive of the relationship strength.

**Table 7.54 Cross Tabulation - H<sub>5</sub> Will renew the Contract Today and Loyalty to Agency**

		Loyalty to agency				Total
		Low	Medium	High	Very high	
Will renew the contract today	Somewhat disagree	20	3	4	8	35
	Somewhat agree	6	15	12	1	34
	Strongly agree	1	5	21	14	41
Total		27	23	37	23	110

**Table 7.55 H<sub>5</sub> Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	54.447(a)	6	.000
Likelihood Ratio	58.298	6	.000
Linear-by-Linear Association	22.823	1	.000
N of Valid Cases	110		

(a) 0 cells (.0%) have expected count less than 5. The minimum expected count is 7.11.

**Table 7.56 H<sub>5</sub> Symmetric Measures**

		Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Nominal by Nominal	Phi	.704			.000
	Cramer's V	.497			.000
Ordinal by Ordinal	Kendall's Tau-b	.418	.084	4.978	.000
N of Valid Cases		110			

(a) Not assuming the null hypothesis.

(b) Using the asymptotic standard error assuming the null hypothesis.

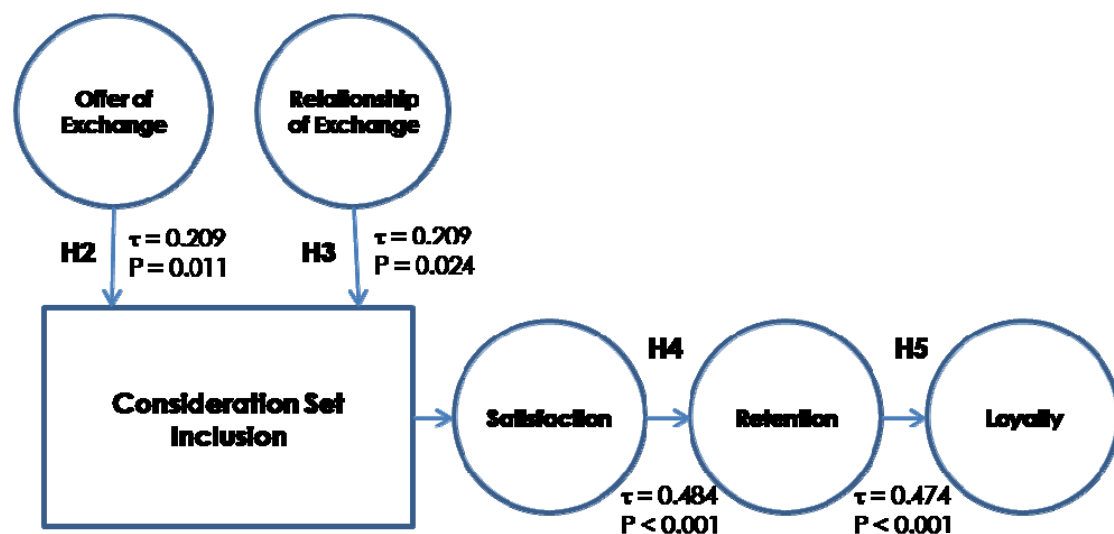
Considering the outcome of the analysis, it becomes clear that there is a significant relationship between 'client retention' and 'client loyalty'. The null hypothesis is thus rejected and the hypothesis accepted.

H <sub>5</sub> : There is a positive relationship between agency retention and agency loyalty.	<b>ACCEPTED</b>
H <sub>0</sub> <sup>5</sup> : There is no relationship between agency retention and agency loyalty.	<b>REJECTED</b>

### 7.3.2.1 Summary of Hypotheses Testing

Hypotheses were tested to determine the statistical likelihood that the data reveal true differences and not a random sampling error. A Chi-squared goodness-of-fit test was applied to determine how closely observed frequencies or probabilities match expected frequencies or probabilities. Data supported hypotheses 2, 3, 4 and 5 but rejected hypothesis 1. Figure 7.22 summarize the findings of the hypotheses.

**Figure 7.22 Hypothesis Findings**



The next section of this chapter will aim to answer the research question and will identify relationships or patterns of association among multiple variables collectively in order to gain greater insight into relationships and patterns.

### 7.3.3 Research Question

The overall research question of this study was: **What are the interrelationships between buyer and seller exchanges and customer retention from the viewpoint of the buyer/client in the South African advertising industry?**

In order to answer this question three research objectives were set (see 5.2.2.1, 5.2.2.2 and 5.2.2.3, p134). These objectives aimed to synthesise the retention literature and empirically explore the theoretical structure of this concept. The third objective *“Test the variables of retention empirically in order to present a consideration set for agency replacement in the South African advertising industry”* required a way to search for the fundamental constructs or dimensions to underlie retention of an advertiser to an advertising agency.

As a result of research conducted during phases one and two a conceptual consideration set model for the evaluation of advertising agency relationships from the client's perspective was developed. This model was informed by variables with a proven positive relationship to retention in various service environments. These variables were empirically tested, during phase three, within the research context (South African advertising industry) and factor and correlation analysis will now be employed to identify representative variables to present a consideration set appropriate for agency replacement in the South African advertising industry. In doing so representative variables will be identified from a much larger set of variables (conceptual consideration set) and data will be reduced to a smaller number of variables for inclusion in the final consideration set. The purpose will thus be to retain the nature and character of the original variables, but to reduce their number.

As this study is designed to assess a proposed structure, each factor should include at least five or more variables (Hair, Anderson, Tatham & Black 2005). Should less than five variables underlie a proposed factor or should the initial correlation among the five variables show low correlation, correlation analysis will be conducted in order to show the inter-correlation amongst variables. It should also be noted that all the variables are metric and constitute a homogeneous set of perceptions appropriate for factor and correlation analysis.

Correlation analysis will consider Pearson's correlation coefficients to assess the strengths of relationships between variables and will also calculate the level of significance. Only variables with significant strong positive relationships will be considered ( $r \geq .5$  and  $p < .05$ ) in the development of new factors.

### **7.3.3.1 Rules and Norms of Exchange**

Hypothesis one "there is a positive relationship between 'rules and norms of exchange' and consideration set inclusion" was rejected. 'Rules and norms of exchange' were however informed by various variables including dependency, switching barriers, and regulatory imposed regulations. In turn these variables were informed by multiple measurement items. This section will consider the association with and correlation to retention displayed by these variables.

#### **7.3.3.1.1 Level of Dependency**

This variable will be removed from the consideration set as correlations to and associations with retention are almost none existent. However, the data was useful to describe the procurement situation applicable to agency appointment (see section 7.2.4, p214).

### 7.3.3.1.2 Source of Dependency

'Source of dependency' was informed by financial switching cost (M73, M74, M78 and M80), procedural switching cost (M71, M72, M75, M76, M77, M79 and M46) and relationship switching cost (M48, M49 and M81). See table 5.4 (p156) for a more detailed description of the measurement items. In order to reduce the measurement items factor analysis was applied to these items (see section 7.2.4.1, p214) and indicated that three factors should be retained to explain 'source of dependency'. These factors included switching uncertainty ( $\alpha = 0.835$ ), switching effort ( $\alpha = 0.766$ ) and switching time ( $\alpha = 0.767$ ). The next step was to determine if these factors were correlated to and associated with the dependent variable (retention) of this study.

#### a. Switching uncertainty

Table 7.57 shows that the association between 'switching uncertainty' and the propensity to re-appoint were close to perfect independence (0) indicating that these variables are almost perfectly independent. The Pearson correlation value is 0.078, significant at 0.419, indicated that the association is insignificant.

**Table 7.57 Correlation between Switching Uncertainty and Propensity to Re-appoint**

		Switching Uncertainty	Propensity to re- appoint
Switching Uncertainty	Pearson Correlation	1	.078
	Sig. (2-tailed)		.419
	N	114	109
Propensity to re- appoint	Pearson Correlation	.078	1
	Sig. (2-tailed)	.419	
	N	109	111

Next ANOVA will be used to assess the likelihood of any difference between different (three) groups displaying different levels of retention.

This variance will be determined by a one-way ANOVA. Table 7.58 below provides a summary of the descriptive statistics. The sample size ranged from six respondents that indicated a retention propensity of less than 50% to 80 respondents that indicated a retention propensity higher than 75%. Also indicated in table 7.59 is the mean, standard deviation, minimum, maximum, standard error, and confidence interval for each level of the (quasi) independent variable.

**Table 7.58 Switching Uncertainty Descriptives**

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
≤ 50%	6	2.4583	.40052	.16351	2.0380	2.8787	1.75	3.00
51-75%	23	2.8261	.60974	.12714	2.5624	3.0898	1.50	4.00
≥ 76%	80	2.8156	.74920	.08376	2.6489	2.9824	1.00	4.00
Total	109	2.7982	.70750	.06777	2.6638	2.9325	1.00	4.00

The next output (table 7.59) shows that the F ratio value of 0.731 with 2 and 106 degrees of freedom (df) has a probability of occurrence by change alone of 0.484 between the three groups. There is thus not a significant ( $F = 0.731$ ,  $p > 0.05$ ) difference between groups displaying different levels of retention propensity.

**Table 7.59 Switching Uncertainty ANOVA**

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.735	2	.368	.731	.484
Within Groups	53.324	106	.503		
Total	54.060	108			

### Factor Insight

Even though most respondents agreed that 'switching uncertainty' present a switching barrier the data analysis confirmed that this barrier does not lead to customer retention. This finding therefore further supports the rejection of the first hypothesis.



## b. Switching effort

Table 7.60 shows that the association between 'switching effort' and the propensity to re-appoint were close to perfect independence (0) indicating that these variables are almost perfectly independent. The Pearson correlation value is 0.005, significant at 0.958, indicating that the association is insignificant.

**Table 7.60 Correlation between Switching Effort and Propensity to Re-appoint**

		Propensity to re-appoint	Switching Effort
Propensity to re-appoint	Pearson Correlation	1	.005
	Sig. (2-tailed)		.958
	N	111	109
Switching Effort	Pearson Correlation	.005	1
	Sig. (2-tailed)	.958	
	N	109	114

Next ANOVA will be used to assess the likelihood of any difference between different (three) groups displaying different levels of retention. This variance will be determined by a one-way ANOVA. Table 7.61 below provides a summary of the descriptive statistics including the sample size, mean, standard deviation, minimum, maximum, standard error, and confidence interval for each level of the (quasi) independent variable.

**Table 7.61 Switching Effort Descriptives**

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
≤ 50%	6	2.5556	.58373	.23831	1.9430	3.1681	1.67	3.33
51-75%	23	2.8261	.75792	.15804	2.4983	3.1538	1.33	4.00
≥ 76%	80	2.7292	.74270	.08304	2.5639	2.8944	1.00	4.00
Total	109	2.7401	.73473	.07037	2.6006	2.8796	1.00	4.00

Table 7.62 below shows that the F ratio value of 0.351 with 2 and 106 degrees of freedom (df) has a probability of occurrence by change alone of 0.705 between the three groups. There is thus not a significant

( $F = 0.351$ ,  $p > 0.05$ ) difference between groups displaying different levels of retention propensity.

**Table 7.62 Switching Effort ANOVA**

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.384	2	.192	.351	.705
Within Groups	57.918	106	.546		
Total	58.302	108			

### Factor Insight

Even though most respondents agreed that 'switching effort' presents a switching barrier the data analysis confirmed that this barrier does not lead to customer retention. This finding therefore further supports the rejection of the first hypothesis.

### c. Switching time

Table 7.63 shows that the association between 'switching time' and the propensity to re-appoint are considered to be weak negative. The Pearson correlation value is -0.161, significant at 0.095, indicating that the association is insignificant.

**Table 7.63 Correlation between Switching Time and Propensity to Re-appoint**

		Propensity to re-appoint	Switching Time
Propensity to re-appoint	Pearson Correlation	1	-.161
	Sig. (2-tailed)		.095
	N	111	109
Switching Time	Pearson Correlation	-.161	1
	Sig. (2-tailed)	.095	
	N	109	114

Next ANOVA will be used to assess the likelihood of any difference between different (three) groups displaying different levels of retention. This variance will be determined by a one-way ANOVA. Table 7.64

below provides a summary of the descriptive statistics including the sample size, mean, standard deviation, minimum, maximum, standard error, and confidence interval for each level of the (quasi) independent variable.

**Table 7.64 Switching Time Descriptives**

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
≤ 50%	6	2.0000	.70711	.28868	1.2579	2.7421	1.00	3.00
51-75%	23	2.4783	.88521	.18458	2.0955	2.8611	1.00	4.00
≥ 76%	80	1.9625	.81433	.09104	1.7813	2.1437	1.00	4.00
Total	109	2.0734	.84389	.08083	1.9132	2.2336	1.00	4.00

Table 7.65 below shows that the F ratio value 2.393 with 2 and 106 degrees of freedom (df) has a probability of occurrence by change alone of 0.033 between the three groups. There is thus a significant ( $F = 2.393, p < 0.05$ ) difference between groups displaying different levels of retention propensity.

**Table 7.65 Switching Time ANOVA**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.786	2	2.393	3.517	.033
Within Groups	72.127	106	.680		
Total	76.913	108			

### Factor Insight

Even though most respondents agreed that 'switching time' presents a switching barrier the data analysis confirmed that this barrier does not lead to customer retention. This finding therefore further supports the rejection of the first hypothesis.

#### 7.3.3.1.3 Variable Insight – Source of Dependency

The focus of this research study was buying decision approaches applicable to 'complex modified rebuy' as highlighted in table 2.2

(p37). Data for this variable indicate that the decision approach is indeed a complex modified rebuy characterized as quite important with little uncertainty, much choice, and a strong power position. The market conditions do however not affect agency retention.

#### **7.3.3.2 Black Economic Empowerment**

This variable will be removed from the consideration set as correlations to and associations with retention are almost none existent. However, considering the measurement items (see table 5.4, p156), the data would be useful to describe the procurement situation applicable to agency appointment.

#### **7.3.3.3 The Interrelationships between Variables Considered for 'Rules and Norms of Exchange' and Retention**

The analysis of the variables that constitute 'rules and norms of exchange' support the rejection of hypothesis one. None of the variables considered above had a significant correlation to or association with customer retention. As such these variables will be removed from consideration set. Variables that determine source and level of dependency were useful to gain a better understanding of procurement processes and considerations.

#### **7.3.4 Offer of Exchange**

Hypothesis two "There is a positive relationship between 'resource of exchange' and consideration set inclusion" was accepted. 'Resource of exchange' was however informed by various variables including service satisfaction and service output. In turn these variables were informed by multiple measurement items. The section to follow will apply factor and where applicable correlation analysis in order to analyse patterns of multidimensional relationships.

#### 7.3.4.1 Client Satisfaction

'Client satisfaction' was informed by 12 measurement items (M50, M51, M53, M54, M55, M56, M57, M58, M59, M60, M61, M62, M63, M64 and M65) see table 4.7 (p125) and 5.5 (p158) for a more detailed description of the measurement items. Initial analysis on these items indicated that partial correlations between these items were high and indicated that there are no 'true' underlying factors, factor analysis was therefore deemed inappropriate (Hair, Anderson, Tatham & Black 2005). All the variables were therefore deemed important to describe client satisfaction. With no underlying factors, measurement items were combined to create a new scale to measure client satisfaction. As indicated by a Cronbach's Alpha of 0.922 (see table 7.66) this new factor is reliable.

**Table 7.66 Client Satisfaction Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.922	.924	16

Considering scale statistics (table 7.67), item statistics (table 7.68), and item total statistics (table 7.69) it is evident that the factor 'client satisfaction' is reliable and composite of sixteen measurement items.

**Table 7.67 Client Satisfaction Scale Statistics**

Mean	Variance	Std. Deviation	N of Items
49.87	61.402	7.836	16

**Table 7.68 Client Satisfaction Item Statistics**

	Mean	Std. Deviation	N
Professional/technical skills	3.28	.606	111
Quality	3.25	.625	111
Level of creativity	3.16	.745	111
Client care	3.24	.753	111
Price	2.77	.646	111
Integrity of advice offered	3.38	.647	111
Pro-activity in generating new ideas	2.96	.830	111
Correct interpretation of briefing	3.05	.693	111
Access to creative teams	2.77	.817	111
Stability of key account management	3.18	.789	111
Consistent work processes	3.14	.720	111
Empathy to creative changes	3.11	.665	111
Constant information of account status	3.06	.704	111
Compatibility of working styles	3.23	.713	111
Compliance with budget limitations	3.17	.725	111
Strength in strategic thinking	3.12	.806	111

**Table 7.69 Client Satisfaction Item-Total Statistics**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Professional/technical skills	46.59	54.716	.705	.591	.916
Quality	46.62	54.310	.728	.633	.915
Level of creativity	46.71	54.589	.568	.491	.919
Client care	46.63	52.762	.738	.620	.914
Price	47.11	57.006	.408	.331	.923
Integrity of advice offered	46.50	54.270	.704	.563	.916
Pro-activity in generating new ideas	46.91	53.083	.631	.555	.918
Correct interpretation of briefing	46.83	53.998	.680	.528	.916
Access to creative teams	47.10	53.690	.589	.456	.919
Stability - key acc management	46.69	54.233	.564	.536	.919
Consistent work processes	46.74	54.031	.648	.579	.917
Empathy to creative changes	46.77	53.617	.753	.643	.914
Constant info of account status	46.81	54.446	.622	.503	.918
Compatibility of working styles	46.64	54.087	.649	.589	.917
Compliance with budget imitations	46.70	55.756	.473	.405	.922
Strength in strategic thinking	46.76	53.349	.629	.498	.917

The next step was to determine if 'client satisfaction' is correlated to and associated with the dependent variable (retention) of this study. The Pearson correlation value 0.546 (see table 7.70) showed that the association between 'client satisfaction' and the propensity to re-appoint was strong. The significant level of less than 0.0001 indicates that the association is significant.

**Table 7.70 Client Satisfaction Correlations**

		Propensity to re-appoint	Client satisfaction
Propensity to re-appoint	Pearson Correlation	1	.546(**)
	Sig. (2-tailed)		.000
	N	111	111
Client satisfaction	Pearson Correlation	.546(**)	1
	Sig. (2-tailed)	.000	
	N	111	116

\*\* Correlation is significant at the 0.01 level (2-tailed).

Next ANOVA will be used to assess the likelihood of any variance between different (three) groups displaying different levels of retention. Table 7.71 below provides a summary of the descriptive statistics including the sample size, mean, standard deviation, minimum, maximum, standard error, and confidence interval for each level of the (quasi) independent variable.

**Table 7.71 Client Satisfaction Descriptives**

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
≤ 50%	6	2.2496	.66325	.27077	1.5535	2.9456	1.20	3.27
51-75%	23	2.8377	.34979	.07294	2.6864	2.9889	1.73	3.33
≥ 76%	82	3.2568	.40773	.04503	3.1672	3.3464	2.13	4.00
Total	111	3.1155	.48867	.04638	3.0236	3.2074	1.20	4.00

Table 7.72 below shows that the F ratio value 23.272 with 2 and 108 degrees of freedom (df) has a probability of occurrence by chance alone of less than 0.001 between the three groups. There is thus a significant ( $F = 23.272$ ,  $p < 0.05$ ) difference between groups displaying different levels of retention propensity.

**Table 7.72 Client Satisfaction ANOVA**

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	7.911	2	3.956	23.272	.000
Within Groups	18.357	108	.170		
Total	26.268	110			

#### 7.3.4.1.1 Variable Insight

The relationship between client satisfaction and client retention is indicative of a strong positive association between customer satisfaction and the contract renewal. This variable should therefore remain part of the consideration set.

#### 7.3.4.2 Service Output

'Service output' was informed by 17 measurement items (M23, M24, M25, M26, M27, M28, M29, M30, M31, M32, M33, M34, M35, M36, M37, M38 and M39) see Table 5.6 (p159) for a more detailed description of the measurement items. Initially all the measurement items, listed above, were included as variables for factor analysis. As a result of data screening to avoid multicollinearity and singularity items M29 ( $R > 0.9$ ) and M33 ( $R > 0.9$ ) were removed. Table 7.73 confirmed that the data matrix has sufficient correlations to justify the application of factor analysis. The value of the KMO is 0.845 and the level of significance, measured by Bartlett's Test of Sphericity is lower than 0.001.

**Table 7.73 KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.845
Bartlett's Test of Sphericity	Approx. Chi-Square	764.507
	Df	105
	Sig.	.000

The anti-image matrices also confirm sufficient correlations among variables and as indicated in table 7.74 below all the highlighted variables displayed in the diagonal are greater than 0.6.



**Table 7.74 Anti-image Matrices**

		M23	M24	M25	M26	M27	M28	M30	M31	M32	M34	M35	M36	M37	M38	M39
Anti-image Covariance	M23	.345	-.180	-.055	.008	-.043	-.099	-.016	.008	.004	.047	-.043	-.005	-.056	-.036	-.065
	M24	-.180	.422	-.047	-.037	.013	.049	.032	-.028	-.055	.006	-.003	-.020	.115	.011	-.094
	M25	-.055	-.047	.326	-.169	-.005	-.131	.003	.080	.002	-.058	-.021	.130	.004	-.041	-.027
	M26	.008	-.037	-.169	.392	-.070	.065	-.124	-.039	.001	-.006	-.032	-.083	.023	.059	.031
	M27	-.043	.013	-.005	-.070	.613	-.159	-.011	-.041	-.037	.014	-.008	.024	-.067	.129	.007
	M28	-.099	.049	-.131	.065	-.159	.423	-.007	-.080	-.036	-.049	.094	-.117	.068	-.058	.045
	M30	-.016	.032	.003	-.124	-.011	-.007	.531	-.083	-.066	-.065	.050	.052	.018	-.139	-.073
	M31	.008	-.028	.080	-.039	-.041	-.080	-.083	.426	-.189	-.015	-.074	.101	-.113	.061	-.019
	M32	.004	-.055	.002	.001	-.037	-.036	-.066	-.189	.426	.007	-.008	-.092	.111	-.041	-.034
	M34	.047	.006	-.058	-.006	.014	-.049	-.065	-.015	.007	.332	-.184	-.049	-.035	.038	-.007
	M35	-.043	-.003	-.021	-.032	-.008	.094	.050	-.074	-.008	-.184	.294	-.111	.007	-.090	.028
	M36	-.005	-.020	.130	-.083	.024	-.117	.052	.101	-.092	-.049	-.111	.530	-.106	.011	-.091
	M37	-.056	.115	.004	.023	-.067	.068	.018	-.113	.111	-.035	.007	-.106	.700	-.158	-.145
	M38	-.036	.011	-.041	.059	.129	-.058	-.139	.061	-.041	.038	-.090	.011	-.158	.646	-.072
	M39	-.065	-.094	-.027	.031	.007	.045	-.073	-.019	-.034	-.007	.028	-.091	-.145	-.072	.578
Anti-image Correlation	M23	<b>.880(a)</b>	-.470	-.164	.022	-.094	-.259	-.038	.020	.010	.139	-.135	-.012	-.115	-.075	-.146
	M24	-.470	<b>.866(a)</b>	-.127	-.090	.026	.116	.068	-.065	-.130	.015	-.008	-.043	.212	.021	-.191
	M25	-.164	-.127	<b>.823(a)</b>	-.472	-.011	-.354	.006	.216	.006	-.177	-.069	.312	.009	-.089	-.063
	M26	.022	-.090	-.472	<b>.865(a)</b>	-.143	.160	-.272	-.095	.004	-.018	-.094	-.181	.044	.117	.065
	M27	-.094	.026	-.011	-.143	<b>.887(a)</b>	-.312	-.019	-.080	-.073	.032	-.018	.041	-.102	.205	.011
	M28	-.259	.116	-.354	.160	-.312	<b>.800(a)</b>	-.014	-.189	-.085	-.131	.267	-.248	.125	-.111	.092
	M30	-.038	.068	.006	-.272	-.019	-.014	<b>.896(a)</b>	-.174	-.138	-.156	.126	.098	.030	-.237	-.132
	M31	.020	-.065	.216	-.095	-.080	-.189	-.174	<b>.830(a)</b>	-.445	-.039	-.209	.212	-.206	.116	-.039
	M32	.010	-.130	.006	.004	-.073	-.085	-.138	-.445	<b>.885(a)</b>	.019	-.022	-.193	.203	-.078	-.068
	M34	.139	.015	-.177	-.018	.032	-.131	-.156	-.039	.019	<b>.851(a)</b>	-.590	-.117	-.072	.081	-.017
	M35	-.135	-.008	-.069	-.094	-.018	.267	.126	-.209	-.022	-.590	<b>.810(a)</b>	-.282	.016	-.207	.068
	M36	-.012	-.043	.312	-.181	.041	-.248	.098	.212	-.193	-.117	-.282	<b>.786(a)</b>	-.174	.019	-.165
	M37	-.115	.212	.009	.044	-.102	.125	.030	-.206	.203	-.072	.016	-.174	<b>.633(a)</b>	-.235	-.228
	M38	-.075	.021	-.089	.117	.205	-.111	-.237	.116	-.078	.081	-.207	.019	-.235	<b>.812(a)</b>	-.118
	M39	-.146	-.191	-.063	.065	.011	.092	-.132	-.039	-.068	-.017	.068	-.165	-.228	-.118	<b>.906(a)</b>

(a) Measures of Sampling Adequacy(MSA)

Table 7.75 below indicates that all the initial communalities are all greater than 0.255 in line with factor analysis requirements.

**Table 7.75 Communalities**

	Initial	Extraction
Can count on agency to be sincere	.655	.707
Agency is concerned about our welfare	.578	.509
Satisfied with the quality of people	.674	.571
Agency staff learned the characteristics of our business	.608	.565
Objectively deal with our decisions	.387	.355
Agency is frank	.577	.495
Offers are customized	.469	.393
Part of mutual planning meetings	.574	.420
Share cost information	.574	.475
Terms of our relationship are verbalized	.668	.730
Terms for sharing information are verbalized	.706	.769
Share proprietary information	.470	.379
Disageement improves productivity	.300	.283
Gives us benefit of doubt	.354	.342
Conflict are seen as productive discussions	.422	.540

Extraction Method: Principal Axis Factoring.

Table 7.76 lists the eigenvalues associated with each linear component (factor) before extraction, after extraction and after rotation. Applying Kaiser's recommendation (Field 2006) that eigenvalues over 1 should

be considered three factors were obtained. The eigenvalues associated with each factor represent the variance explained by that particular factor and is displayed in terms of the percentage of variance explained as indicated by the “% of variance” column in table 7.76. The three factors therefore explain 50.2% of the variance.

**Table 7.76 Total Variance Explained**

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.306	42.040	42.040	5.847	38.977	38.977	3.777	25.182	25.182
2	1.550	10.334	52.373	1.032	6.879	45.857	2.162	14.415	39.597
3	1.101	7.341	59.714	.653	4.356	50.212	1.592	10.615	50.212
4	.979	6.527	66.241						
5	.865	5.767	72.008						
6	.848	5.656	77.664						
7	.675	4.503	82.167						
8	.543	3.618	85.785						
9	.437	2.910	88.695						
10	.428	2.853	91.548						
11	.375	2.498	94.047						
12	.286	1.907	95.954						
13	.252	1.682	97.636						
14	.188	1.256	98.892						
15	.166	1.108	100.000						

Extraction Method: Principal Axis Factoring.

Table 7.77 indicates the factor loadings for each variable. Note that absolute values less than 0.5 were suppressed to ease interpretation. Factor one was labelled ‘respect and support’ as the seven variables displaying high loadings all relate to elements associated with respect and support. Factor two was labelled ‘clear terms of engagement’ as the two variables displaying high loadings indicated some the verbalization of the terms of the relationship and lastly factor three was labelled ‘conflict resolution’ as the three variables that display high loading relates to the manner in conflict are dealt with. The third variable did not meet the 0.5 value criteria but was considered after a reliability test indicated that the first two variables were not deemed reliable on its own.

**Table 7.77 Rotated Factor Matrix(a)**

	Factor		
	1	2	3
Can count on agency to be sincere	.735		
Satisfied with the quality of people	.709		
Agency is frank	.680		
Agency is concerned about our welfare	.651		
Agency staff learned the characteristics of our business	.616		
Objectively deal with our decisions	.570		
Share cost information	.559		
Offers are customized			
Part of mutual planning meetings			
Terms for sharing information are verbalized		.774	
Terms of our relationship are verbalized		.765	
Share proprietary information			
Conflict are seen as productive discussions			.626
Gives us benefit of doubt			.524
Disagreement improves productivity			.491

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.

(a) Rotation converged in 8 iterations.

#### **a. Respect and support**

Respect and support is the result of seven variables namely our company can count on the agency to be sincere (M23); when making important decisions, the agency is concerned about our welfare (M24); we are satisfied with the quality of people assigned to the account (M25); our advertising agency's personnel thoroughly learned the characteristics of our business (M26); the agency is willing to make recommendations and/or object to our decisions when they believe them wrong (M27); the agency's representatives are frank in dealing with our company (M28) and our company and our advertising agency share relevant cost information. As indicated by a Cronbach's Alpha of 0.866 (see table 7.78) this new factor is reliable.

**Table 7.78 Respect and Support Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.866	.870	7

Considering scale statistics (table 7.79), item statistics (table 7.80), and item total statistics (table 7.81) it is evident that the new factor 'respect and support' is reliable and composite of seven measurement items.

**Table 7.79 Respect and Support Scale Statistics**

Mean	Variance	Std. Deviation	N of Items
23.53	13.963	3.737	7

**Table 7.80 Respect and Support Item Statistics**

	Mean	Std. Deviation	N
Can count on agency to be sincere	3.53	.615	112
Agency is concerned about our welfare	3.42	.693	112
Satisfied with the quality of people	3.26	.791	112
Agency staff learned the characteristics of our business	3.21	.776	112
Objectively deal with our decisions	3.46	.629	112
Agency is frank	3.52	.644	112
Share cost information	3.13	.840	112

**Table 7.81 Respect and Support Item-Total Statistics**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Can count on agency to be sincere	20.00	10.667	.727	.610	.837
Agency is concerned about our welfare	20.11	10.493	.666	.552	.843
Satisfied with the quality of people	20.27	9.819	.709	.617	.837
Agency staff learned the characteristics of our business	20.31	10.253	.625	.505	.849
Objectively deal with our decisions	20.06	11.230	.555	.360	.858
Agency is frank	20.01	10.748	.664	.536	.844
Share cost information	20.40	10.206	.569	.378	.860

The next step was to determine if 'respect and support' is correlated to and associated with the dependent variable (retention) of this study. The Pearson correlation value 0.475 (see table 7.83) showed that the association between 'respect and support' and the propensity to re-appoint was moderate. The significant level of less than 0.0001 indicates that the association is significant.

**Table 7.82 Respect and Support Correlations**

		Propensity to re-appoint	Respect and Support
Propensity to re-appoint	Pearson Correlation	1	.475(**)
	Sig. (2-tailed)		.000
	N	111	111
Respect and Support	Pearson Correlation	.475(**)	1
	Sig. (2-tailed)	.000	
	N	111	116

\*\* Correlation is significant at the 0.01 level (2-tailed).

Next ANOVA will be used to assess the likelihood of any variance between different (three) groups displaying different levels of retention. Table 7.83 below provides a summary of the descriptive statistics including the sample size, mean, standard deviation, minimum, maximum, standard error, and confidence interval for each level of the (quasi) independent variable.

**Table 7.83 Respect and Support Descriptives**

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
≤ 50%	6	2.64	.656	.268	1.95	3.33	2	3
51-75%	23	3.09	.610	.127	2.82	3.35	2	4
≥ 76%	82	3.52	.403	.045	3.43	3.61	2	4
Total	111	3.38	.526	.050	3.28	3.48	2	4

Table 7.84 below shows that the F ratio value 15.719 with 2 and 108 degrees of freedom (df) has a probability of occurrence by change alone of less than 0.001 between the three groups. There is thus a

significant ( $F = 15.719$ ,  $p < 0.05$ ) difference between groups displaying different levels of retention propensity.

**Table 7.84 Respect and Support ANOVA**

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	6.849	2	3.425	15.719	.000
Within Groups	23.529	108	.218		
Total	30.378	110			

### Factor Insight

Respect and support is therefore an underlying factor of service output and based on the data analysis, this factor should be part of the consideration set model.

#### b. Clear terms of engagement

Clear terms of engagement is the result of two variables namely the basic terms of the relationship have been explicitly verbalized and discussed (M34) and the basic terms for sharing information between the company and advertising agency have been explicitly verbalized and discussed (M35). As indicated by a Cronbach's Alpha of 0.859 (see table 7.85) this new factor is reliable.

**Table 7.85 Clear Terms of Engagement Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.859	.860	2

Considering scale statistics (table 7.86), item statistics (table 7.87), and item total statistics (table 7.88) it is evident that the new factor 'clear terms of engagement' is reliable and composite of two measurement items.

**Table 7.86 Clear Terms of Engagement Scale Statistics**

Mean	Variance	Std. Deviation	N of Items
6.89	1.934	1.391	2

**Table 7.87 Clear Terms of Engagement Item Statistics**

	Mean	Std. Deviation	N
Terms of our relationship are verbalized	3.51	.723	112
Terms for sharing information are verbalized	3.38	.762	112

**Table 7.88 Clear Terms of Engagement Item-Total Statistics**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation
Terms of our relationship are verbalized	3.38	.581	.754	.569
Terms for sharing information are verbalized	3.51	.522	.754	.569

The next step was to determine if 'clear terms of engagement' is correlated to and associated with the dependent variable (retention) of this study. The Pearson correlation value 0.322 (see table 7.89) showed that the association between 'clear terms of engagement' and the propensity to re-appoint was moderate. The significant level of less than 0.0001 indicates that the association is significant.

**Table 7.89 Clear Terms of Engagement Correlations**

		Will renew the contract today	Clear Terms of Engagement
Will renew the contract today	Pearson Correlation	1	.322(**)
	Sig. (2-tailed)		.000
	N	115	115
Clear Terms of Engagement	Pearson Correlation	.322(**)	1
	Sig. (2-tailed)	.000	
	N	115	116

\*\* Correlation is significant at the 0.01 level (2-tailed).

Next ANOVA will be used to assess the likelihood of any variance between different (three) groups displaying different levels of retention. Table 7.90 below provides a summary of the descriptive statistics including the sample size, mean, standard deviation, minimum, maximum, standard error, and confidence interval for each level of the (quasi) independent variable.

**Table 7.90 Clear Terms of Engagement Descriptives**

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
≤ 50%	6	2.83	1.169	.477	1.61	4.06	1	4
51-75%	23	2.87	.882	.184	2.49	3.25	1	4
≥ 76%	82	3.64	.529	.058	3.52	3.76	2	4
Total	111	3.44	.736	.070	3.30	3.58	1	4

Table 7.91 below shows that the F ratio value 15.047 with 2 and 108 degrees of freedom (df) has a probability of occurrence by change alone of less than 0.001 between the three groups. There is thus a significant ( $F = 15.047$ ,  $p < 0.05$ ) difference between groups displaying different levels of retention propensity.

**Table 7.91 Clear Terms of Engagement ANOVA**

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	12.979	2	6.490	15.047	.000
Within Groups	46.579	108	.431		
Total	59.559	110			



### Factor Insight

Clear terms of engagement is therefore an underlying factor of service output and based on the data analysis, this factor should be part of the consideration set model.

#### c. Conflict resolution

Conflict resolution is the result of three variables namely disagreement between the company and advertising agency has considerably increased the productivity of our working relationship (M37); the advertising agency tends to give the company the 'benefit of the doubt' in conflict situations (M38) and conflict is seen as a 'productive discussion' rather than an 'argument'. As indicated by a Cronbach's Alpha of 0.547 (see table 7.92) this new factor is on the lower limit of reliability.

**Table 7.92 Conflict Resolution Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.569	.574	3

Considering scale statistics (table 7.93), item statistics (table 7.94), and item total statistics (table 7.95) it is evident that the new factor 'conflict resolution' is reliable and composite of two measurement items.

**Table 7.93 Conflict Resolution Scale Statistics**

Mean	Variance	Std. Deviation	N of Items
8.61	3.310	1.819	3

**Table 7.94 Conflict Resolution Item Statistics**

	Mean	Std. Deviation	N
Disageement improves productivity	2.60	.906	115
Gives us benefit of doubt	2.79	.778	115
Conflict are seen as productive discussions	3.22	.792	115

**Table 7.95 Conflict Resolution Item-Total Statistics**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Disageement improves productivity	6.01	1.675	.347	.121	.528
Gives us benefit of doubt	5.82	1.852	.403	.168	.436
Conflict are seen as productive discussions	5.39	1.837	.394	.163	.447

The next step was to determine if 'conflict resolution' is correlated to associate with the dependent variable (retention) of this study. The Pearson correlation value 0.302 showed that the association between 'conflict resolution' and the propensity to re-appoint was moderate (see table 7.96). The significant level of 0.001 indicates that the association is significant.

**Table 7.96 Conflict Resolution Correlations**

		Conflict Resolution	Propensity to re- appoint
Conflict Resolution	Pearson Correlation	1	.302(**)
	Sig. (2-tailed)		.001
	N	116	111
Propensity to re-appoint	Pearson Correlation	.302(**)	1
	Sig. (2-tailed)	.001	
	N	111	111

\*\* Correlation is significant at the 0.01 level (2-tailed).

Next ANOVA will be used to assess the likelihood of any variance between different (three) groups displaying different levels of retention. Table 7.97 below provides a summary of the descriptive statistics including the sample size, mean, standard deviation, minimum,

maximum, standard error, and confidence interval for each level of the (quasi) independent variable.

**Table 7.97 Conflict Resolution Descriptives**

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
≤ 50%	6	2.39	.854	.349	1.49	3.29	1	3
51-75%	23	2.67	.522	.109	2.44	2.89	2	4
≥ 76%	82	3.00	.571	.063	2.87	3.13	2	4
Total	111	2.90	.601	.057	2.78	3.01	1	4

Table 7.98 below shows that the F ratio value 5.445 with 2 and 108 degrees of freedom (df) has a probability of occurrence by chance alone of 0.006 between the three groups. There is thus a significant ( $F = 5.445$ ,  $p < 0.05$ ) difference between groups displaying different levels of retention propensity.

**Table 7.98 Conflict Resolution ANOVA**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.639	2	1.820	5.445	.006
Within Groups	36.093	108	.334		
Total	39.732	110			

### Factor Insight

Conflict resolution is therefore an underlying factor of service output and based on the data analysis, this factor should be part of the consideration set model.

#### 7.3.4.3 The Interrelationships between Variables Considered for 'Offer of Exchange' and Retention

The analyses of the variables that constitute 'offer of exchange' support the rejection of the second null hypothesis. All of the variables considered above, had a significant correlation to or association with customer retention. Through the process of data reduction the

structure of these variables was however changed resulting in four variables namely client satisfaction, respect and support, clear terms of engagement and conflict resolution.

### **7.3.5 Relationship of Exchange**

Hypothesis three "There is a positive relationship between 'relationship of exchange' and consideration set inclusion" was accepted. 'Relationship of exchange' was however informed by various variables including commitment, trust and communication. In turn these variables were informed by multiple measurement items. The section to follow will apply factor analysis in order to analyse patterns of multidimensional relationships.

Relationship of exchange was informed by 15 measurement items (M23, M24, M33, M35, M36, M37, M38, M39, M40, M41, M42, M43, M44, and M45) see Table 5.6 (p159) for a more detailed description of the measurement items.

Initially all the measurement items, listed above, were included as variables for factor analysis regardless of initial variable groupings as per the heuristic consideration set. As a result of data screening to avoid multicollinearity and singularity items, M33( $R > 0.9$ ), M36 ( $R > 0.9$ ), M39 ( $R > 0.9$ ), M44 ( $R < 0.6$ ), M45 ( $R < 0.6$ ), M37 (communality lower than 0.255) and M38 (communality lower than 0.255) were removed. Table 7.99 confirmed that the data matrix has sufficient correlations to justify the application of factor analysis. The value of the KMO is 0.819 and the level of significance, measured by Bartlett's Test of Sphericity is lower than 0.001.

**Table 7.99 KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.819
Bartlett's Test of Sphericity	Approx. Chi-Square	438.221
	Df	28
	Sig.	.000

The anti-image matrices also confirm sufficient correlations among variables and as indicated in table 7.100 below all the highlighted variables displayed in the diagonal are greater than 0.6.

**Table 7.100 Anti-image Matrices**

		M42	M43	M23	M24	M34	M35	M40	M41
Anti-image Covariance	M42	.422	-.174	-.110	.000	-.058	-.026	-.109	.022
	M43	-.174	.615	-.045	.034	.037	-.084	-.018	-.041
	M23	-.110	-.045	.417	-.244	-.006	-.012	-.033	.042
	M24	.000	.034	-.244	.452	.011	-.037	-.011	-.093
	M34	-.058	.037	-.006	.011	.458	-.266	-.036	.003
	M35	-.026	-.084	-.012	-.037	-.266	.418	.014	-.044
	M40	-.109	-.018	-.033	-.011	-.036	.014	.346	-.225
	M41	.022	-.041	.042	-.093	.003	-.044	-.225	.408
Anti-image Correlation	M42	.873(a)	-.342	-.261	.000	-.132	-.063	-.285	.054
	M43	-.342	.883(a)	-.089	.065	.070	-.166	-.038	-.083
	M23	-.261	-.089	.808(a)	-.563	-.013	-.029	-.086	.102
	M24	.000	.065	-.563	.808(a)	.024	-.086	-.028	-.216
	M34	-.132	.070	-.013	.024	.782(a)	-.608	-.089	.006
	M35	-.063	-.166	-.029	-.086	-.608	.799(a)	.037	-.106
	M40	-.285	-.038	-.086	-.028	-.089	.037	.815(a)	-.600
	M41	.054	-.083	.102	-.216	.006	-.106	-.600	.794(a)

(a) Measures of Sampling Adequacy(MSA)

Table 7.101 below indicates that all the initial communalities are all greater than 0.255 in line with factor analysis requirements. Only one factor had obtained an Eigenvalues (greater than 1) as indicated in table 7.102.

**Table 7.101 Communalities**

	Initial	Extraction
We enjoy working together	.578	.607
Our philosophies match	.385	.362
Can count on agency to be sincere	.583	.493
Agency is concerned about our welfare	.548	.446
Terms of our relationship are verbalized	.542	.385
Terms for sharing information are verbalized	.582	.466
We are committed to the relationship	.654	.607
Relationship deserves our maximum effort	.592	.484

Extraction Method: Principal Axis Factoring.

**Table 7.102 Total Variance Explained**

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.357	54.462	54.462	3.851	48.140	48.140
2	.973	12.165	66.627			
3	.775	9.687	76.314			
4	.735	9.184	85.497			
5	.417	5.213	90.711			
6	.269	3.363	94.074			
7	.259	3.235	97.309			
8	.215	2.691	100.000			

Extraction Method: Principal Axis Factoring.

The factor identified was labelled 'good working relationship' and was the results of eight variables that displayed high loadings as indicated in table 7.103 below.

**Table 7.103 Good Working Relationship Factor Matrix(a)**

	Factor 1
We are committed to the relationship	.779
We enjoy working together	.779
Can count on agency to be sincere	.702
Relationship deserves our maximum effort	.696
Terms for sharing information are verbalized	.683
Agency is concerned about our welfare	.668
Terms of our relationship are verbalized	.620
Our philosophies match	.602

Extraction Method: Principal Axis Factoring.

(a) 1 factor extracted. 5 iterations required.

As indicated by a Cronbach's Alpha of 0.879 (see table 7.104) this new factor is reliable.

**Table 7.104 Good Working Relationship Reliability Statistics**

Cronbach's Alpha	N of Items
.879	8

Considering scale statistics (table 7.105), item statistics (table 7.106), and item total statistics (table 7.106) it is evident that the new factor 'good working relationship' is reliable and composite of seven measurement items.

**Table 7.105 Good Working Relationship Scale Statistics**

Mean	Variance	Std. Deviation	N of Items
26.93	18.533	4.305	8

**Table 7.106 Good Working Relationship Item Statistics**

	Mean	Std. Deviation	N
Can count on agency to be sincere	3.53	.619	107
Agency is concerned about our welfare	3.45	.676	107
Terms of our relationship are verbalized	3.50	.732	107
Terms for sharing information are verbalized	3.39	.762	107
We are committed to the relationship	3.42	.714	107
Relationship deserves our maximum effort	3.40	.712	107
We enjoy working together	3.14	.818	107
Our philosophies match	3.09	.795	107

**Table 7.107 Good Working Relationship Item-Total Statistics**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Can count on agency to be sincere	23.40	15.016	.653	.864
Agency is concerned about our welfare	23.49	14.988	.590	.870
Terms of our relationship are verbalized	23.43	14.568	.614	.867
Terms for sharing information are verbalized	23.54	14.156	.662	.862
We are committed to the relationship	23.51	14.177	.715	.857
Relationship deserves our maximum effort	23.53	14.497	.651	.863
We enjoy working together	23.79	13.523	.722	.856
Our philosophies match	23.84	14.550	.552	.875

The next step was to determine if 'good working relationship' is correlated to associate with the dependent variable (retention) of this

study. The Pearson correlation value 0.596 showed that the association between 'good working relationship' and the propensity to re-appoint was strong. The significant level of less than 0.001 indicates that the association is significant (see table 7.108).

**Table 7.108 Good Working Relationship Correlations**

		Good Working Relationship	Propensity to re-appoint
Good Working Relationship	Pearson Correlation	1	.596(**)
	Sig. (2-tailed)		.000
	N	116	111
Propensity to re-appoint	Pearson Correlation	.596(**)	1
	Sig. (2-tailed)	.000	
	N	111	111

\*\* Correlation is significant at the 0.01 level (2-tailed).

Next ANOVA will be used to assess the likelihood of any variance between different (three) groups displaying different levels of retention. Table 7.109 below provides a summary of the descriptive statistics including the sample size, mean, standard deviation, minimum, maximum, standard error, and confidence interval for each level of the (quasi) independent variable.

**Table 7.109 Good Working Relationship Descriptives**

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
≤ 50%	6	2.53	.652	.266	1.85	3.21	1	3
51-75%	23	2.93	.529	.110	2.70	3.16	2	4
≥ 76%	82	3.56	.390	.043	3.47	3.64	2	4
Total	111	3.37	.541	.051	3.27	3.47	1	4

Table 7.110 below shows that the F ratio value 30.419 with 2 and 108 degrees of freedom (df) has a probability of occurrence by chance alone of less than 0.0001 between the three groups. There is thus a significant ( $F = 30.419$ ,  $p < 0.05$ ) difference between groups displaying different levels of retention propensity.



**Table 7.110 Good Working Relationship ANOVA**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	11.615	2	5.808	30.419	.000
Within Groups	20.620	108	.191		
Total	32.235	110			

### 7.3.5.1 Factor Insight

Good working relationship should be part of the consideration set model.

### 7.3.5.2 The Interrelationships between Variables Considered for 'Relationship of Exchange' and Retention

The analyses of the variables that constitute 'relationship of exchange' support the rejection of the second null hypothesis. All of the variables considered above, had a significant correlation to or association with customer retention. Through the process of data reduction the structure of these variables was however changed resulting in one factor only.

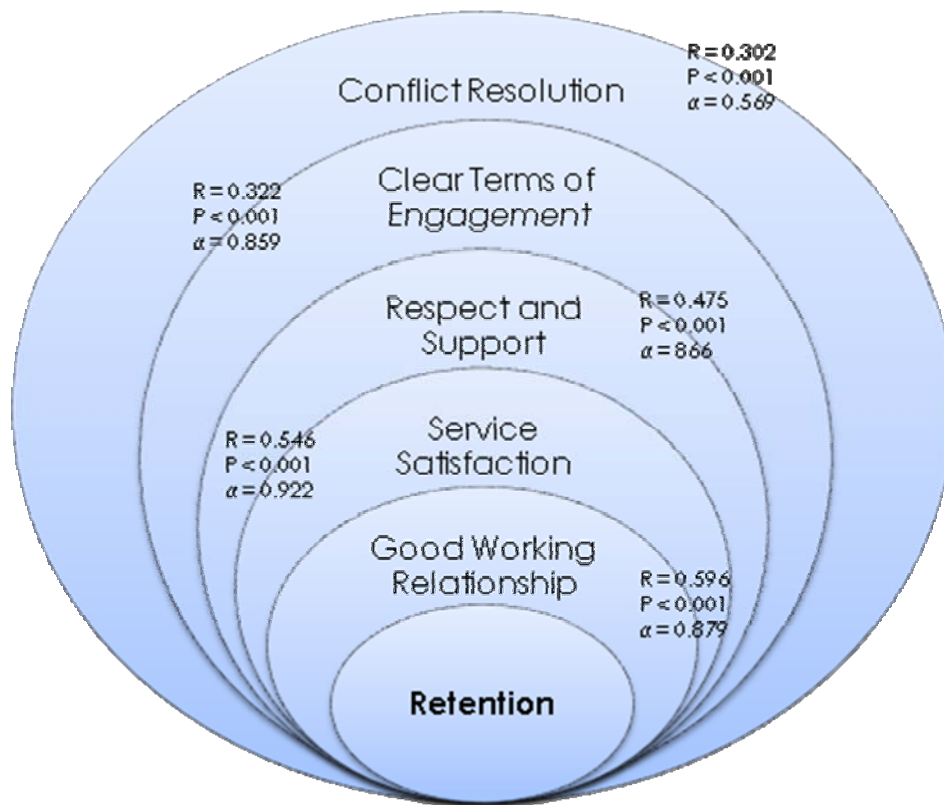
### 7.3.6 Summary of Section 2

The overall research question of this study was: **What are the interrelationships between buyer and seller exchanges and customer retention from the viewpoint of the buyer/client in the South African advertising industry?**

In order to identify the fundamental factors that underlie retention of an advertiser to an advertising agency this section analysed the data obtained within the research context (South African advertising industry) and applied factor and correlation analysis to identify representative variables to present a consideration set appropriate for agency replacement in the South African advertising industry. The findings are summarized in figure 7.23 below. What started as a very

complex set of relationships has been simplified into a parsimonious model. This model postulate that retention is the result of a good working relationship between an advertiser and agency; service satisfaction; respect and support; clear terms of engagement; and conflict resolution.

**Figure 7.23 Agency Replacement Consideration Set**



#### **7.4 Section 3 - Agency Compliance to Advertisers' Expectations and Appointment Criteria**

Lastly, the association of and correlation between client expectations in general and client satisfaction in particular are considered. This information will be useful to create new scales to measure client satisfaction and expectations. This section will also investigate selection criteria applied when agencies are appointed.

### **7.4.1 Client Expectations versus Client Satisfaction**

The data confirmed that clients had a high propensity to renew contracts with existing advertising agencies. It was further determined that satisfaction is positively related to retention. This section will consider the association of and correlation between client expectations in general and client satisfaction in particular. Respondents were asked, based on overall experience, to what extent they expect advertising agencies (in general) to comply with a list of services. Respondents also had to indicate, using the same list of services, their level of satisfaction with the current advertising agency appointed by the company. Responses could vary from '1' if the respondent did not expect the service at all to '4' if the respondent expected agencies to comply to a great extent. Responses for existing agencies could vary from '1' if the respondent very dissatisfied with the statement to '4' if the respondent was extremely satisfied. The nine statements included:

1. Show Integrity when advice is offered (M55 and M100).
2. Be pro-active in generating new ideas (M56 and M101).
3. Have correct interpretation of briefings (M57 and M102).
4. Offer access to a number of creative teams (M58 and M103).
5. Have stability of key account management (M59 and M104).
6. Show consistency with regards to work processes (M60 and M105).
7. Have empathy to creative changes (M61 and M106).
8. Provide constant information on account status (M62 and M107).
9. Display strength in strategic thinking (M65 and M108).

Qualifying buying dimensions i.e. the professional/technical skills, quality of advertising service, level of creativity and price was not considered for this analysis as it did not relate specifically to the working relationship.

Initial analysis on these items indicated that partial correlations between these items were high and indicated that there are no 'true' underlying factors, factor analysis was therefore deemed inappropriate (Hair, Anderson, Tatham & Black 2005). All the variables were therefore deemed important to describe client satisfaction and client expectation and combined to create new scales to measure client satisfaction and client expectation.

#### **7.4.1.1 Client Satisfaction**

As indicated by a Cronbach's Alpha of 0.883 (see table 7.111) this new factor is reliable. Considering scale statistics (table 7.112), item statistics (table 7.113), and item total statistics (table 7.114) it is evident that the new factor 'client satisfaction' is reliable and composite of nine measurement items (M55, M56, M57, M58, M59, M60, M61, M62 and M65).

**Table 7.111 Client Satisfaction Reliability Statistics**

Cronbach's Alpha	N of Items
.883	9

**Table 7.112 Client Satisfaction Scale Statistics**

Mean	Variance	Std. Deviation	N of Items
27.74	23.004	4.796	9

**Table 7.113 Client Satisfaction Item Statistics**

	Mean	Std. Deviation	N
Integrity of advice offered	3.38	.645	112
Pro-activity in generating new ideas	2.96	.832	112
Correct interpretation of briefing	3.04	.690	112
Access to creative teams	2.77	.816	112
Stability of key account management	3.18	.785	112
Consistent work processes	3.13	.717	112
Empathy to creative changes	3.11	.662	112
Constant information of account status	3.06	.701	112
Strength in strategic thinking	3.12	.803	112

**Table 7.114 Client Satisfaction Item-Total Statistics**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Integrity of advice offered	24.37	18.703	.696	.866
Pro-activity in generating new ideas	24.79	17.773	.647	.869
Correct interpretation of briefing	24.70	18.520	.676	.866
Access to creative teams	24.97	18.044	.619	.871
Stability of key account management	24.56	18.591	.561	.876
Consistent work processes	24.61	18.637	.623	.871
Empathy to creative changes	24.63	18.558	.702	.865
Constant information of account status	24.68	19.139	.550	.876
Strength in strategic thinking	24.63	18.020	.637	.869

### 7.4.1.2 Client Expectations

As indicated by a Cronbach's Alpha of 0.820 (see table 7.115) this new factor is reliable. Considering scale statistics (table 7.116), item statistics (table 7.117), and item total statistics (table 7.118) it is evident that the new factor 'client expectations' is reliable and composite of nine measurement items (M100, M101, M102, M103, M104, M105, M106, M107, and M108).

**Table 7.115 Client Expectations Reliability Statistics**

Cronbach's Alpha	N of Items
.820	9

**Table 7.116 Client Expectations Scale Statistics**

Mean	Variance	Std. Deviation	N of Items
31.56	11.275	3.358	9

**Table 7.117 Client Expectations Item Statistics**

	Mean	Std. Deviation	N
Show integrity when advice is offered	3.68	.486	116
Pro-active in generating new ideas	3.65	.532	116
Correct interpretation of briefings	3.80	.422	116
Offer access to creative teams	3.19	.733	116
Stability of key account management	3.43	.636	116
Show consistency in work processes	3.48	.597	116
Have empathy to creative changes	3.34	.576	116
Provide constant information on account status	3.23	.702	116
Display strength in strategic thinking	3.75	.491	116

**Table 7.118 Client Expectations Item-Total Statistics**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Show integrity when advice is offered	27.88	9.846	.391	.815
Pro-active in generating new ideas	27.91	9.262	.535	.800
Correct interpretation of briefings	27.76	9.646	.554	.801
Offer access to creative teams	28.37	8.618	.492	.808
Stability of key account management	28.13	9.001	.490	.805
Show consistency in work processes	28.08	8.716	.625	.788
Have empathy to creative changes	28.22	9.023	.554	.797
Provide constant information on account status	28.33	8.257	.625	.787
Display strength in strategic thinking	27.81	9.616	.465	.808

The next step was to determine if 'client satisfaction' is correlated to and associate with the 'client expectations'. The Pearson correlation value 0.284 showed that the correlation between 'client satisfaction' and 'client expectation' was weak but positive. The significant level of 0.002 indicates that the association is significant (see table 7.119).

**Table 7.119 Correlations between Client Satisfaction and Client Expectations**

		Satisfaction Measured	Expectations
Satisfaction Measured	Pearson Correlation	1	.284(**)
	Sig. (2-tailed)		.002
	N	116	116
Expectations	Pearson Correlation	.284(**)	1
	Sig. (2-tailed)	.002	
	N	116	116

\*\* Correlation is significant at the 0.01 level (2-tailed).

Lastly, a set of selection criteria applied when agencies are appointed is discussed and prioritized.

#### **7.4.2 Agency Appointment Criteria**

The data analysis thus far mostly provided an understanding of factors deemed important for client retention. The next section will consider the factors deemed important for agency appointment. This section will address one of the investigative questions namely; *“What supplier selection criteria are used for advertising agency appointments?”*

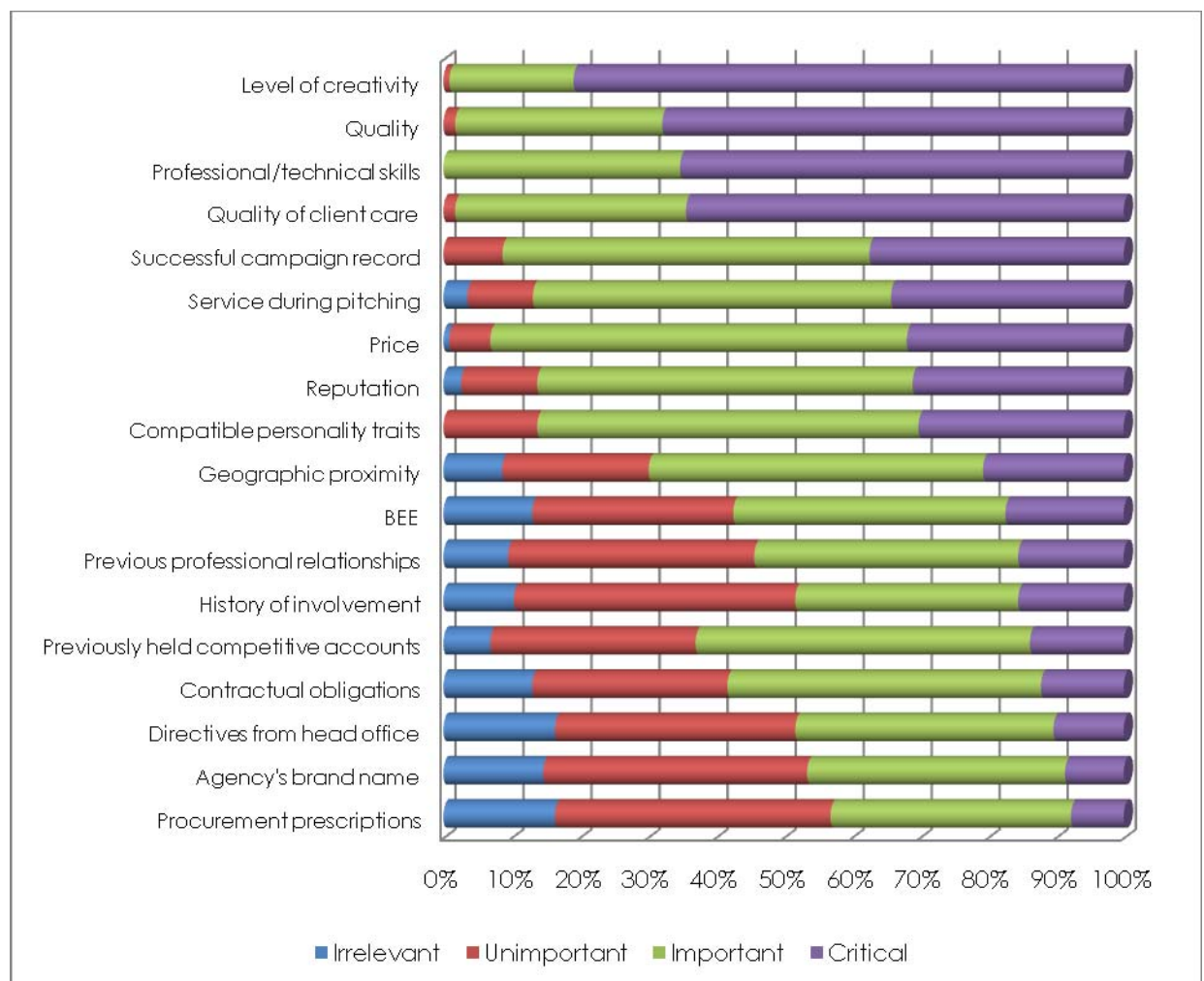
Figure 7.24 lists the various criteria considered important for the appointment of an advertising agency in order of importance. Clients considered level of creativity, quality, professional/technical skills and quality of client care as most important. The next level of importance included a successful campaign record, service during pitching, price, reputation and compatible personality traits. On a third level clients consider geographic proximity, BEE, previous professional relationship, history of involvement, previously held competitive accounts and contractual obligations as important. Directives from head office; agency's brand name and procurement prescriptions were considered to be less important. Table 7.120 provides a numerical overview of figure 7.24.

**Table 7.120 Selection Criteria for Agency Appointment**

	Irrelevant	Unimportant	Important	Critical
Procurement prescriptions	16.38	40.52	35.34	7.76
Agency's brand name	14.66	38.79	37.93	8.62
Directives from head office	16.38	35.34	37.93	10.34
Contractual obligations	13.04	28.70	46.09	12.17
Previously held competitive accounts	6.90	30.17	49.14	13.79
History of involvement	10.34	41.38	32.76	15.52
Previous professional relationships	9.48	36.21	38.79	15.52
BEE	13.04	29.57	40.00	17.39
Geographic proximity	8.62	21.55	49.14	20.69
Compatible personality traits	0.00	13.79	56.03	30.17
Reputation	2.59	11.21	55.17	31.03
Price	0.86	6.03	61.21	31.90
Service during pitching	3.51	9.65	52.63	34.21
Successful campaign record	0.00	8.70	53.91	37.39
Quality of client care	0.00	1.74	33.91	64.35
Professional/technical skills	0.00	0.00	34.78	65.22
Quality	0.00	1.74	30.43	67.83
Level of creativity	0.00	0.87	18.26	80.87



**Figure 7.24 Selection Criteria for Agency Appointment**



## 7.5 Conclusion

Analysis of the data revealed that the majority of respondents were appointed in a senior position for more than four years. Respondents were mostly employed in wholesale and retail trade and also in the manufacturing industry. The majority of respondents (63%) appoint full service advertising agencies. On average the advertisers have been appointed for a period of five years and the majority of agencies are remunerated on a project basis.

Relationships are close and 70% of the respondents would continue with the current relationship if given the choice. Most of the

respondents (62%) were involved in the appointment of the current advertising agency.

Further analysis indicated that switching barriers take the form of switching uncertainty and switching effort. Government imposed rules, in the form of BEE, is also considered by the majority of respondents as important in the appointment decision of an advertising agency.

Hypotheses were tested to determine the statistical likelihood that the data reveal true differences and not a random sampling error. A chi-squared goodness-of-fit test was applied to determine how closely observed frequencies or probabilities match expected frequencies or probabilities. Data supported hypotheses 2, 3, 4 and 5 but rejected hypothesis 1.

In order to identify the fundamental factors that underlie retention of an advertiser to an advertising agency factor and correlation analysis were applied to the data to identify representative variables to present a consideration set appropriate for agency replacement in the South African advertising industry. The findings were used to present a parsimonious model. The next chapter will use the results from the qualitative and quantitative data analysis to present the research conclusion and recommendation.

## **CHAPTER 8**

# **CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH**

## **8.1 Introduction**

The motivation of this research is to develop and describe the construct of buyer consideration sets, in order to gain a better understanding of business relationships with a specific reference to agency replacement considerations in the South African advertising industry. In order to develop and describe client consideration sets that lead to agency retention a theoretical heuristic model was developed to illustrate interrelationships between various antecedents and constructs leading to retention. This model was subsequently tested and modified to present an integrated and holistic view of customer retention within the South African advertising industry.

This final chapter presents the conclusions of the research study, reports its recommendations and proposes a direction for future research. The sections to follow will describe the decision process that is applied when advertising agencies are appointed; indicate the composition and size of buying centers; consider the supplier selection criteria used for the appointment of agencies and will also indicate the forces that shape organizational buying behavior for advertising agencies.

This chapter will conclude with noting the theoretical and managerial implications of this study and will highlight limitations of the study and future areas of research.

## **8.2 Advertising Agency Appointment**

According to the “best practice guidelines for the procurement of marketing, advertising and PR services / products” document (Government Communication, National Treasury and The Association for Communication and Advertising, 2008), the appointment of

advertising agencies should adhere to a specified code of conduct. This code of conduct provides a standard set of guidelines to ensure a fair process to be implemented when pitching for new business and is endorsed by all members (see annexure 5).

The guidelines require a two-stage bidding process to be instituted, namely:

- Stage One: Requests for proposals, including the provision of the actual brief and the request for proposals/communication are sought from interested parties. This phase includes a pre-screening and short-listing process. The brief would require bidders to submit the following information:
  - Credentials (comprehensive company profile, ownership structure of the company, BEE profile, etc.)
  - Account track record/expertise
  - Infrastructure / capacity (location, operational strategy and methodology, resources, consultation, account planning and reporting capabilities)
  - Profile and staff complement at senior, middle and lower level
  - Transfer of skills to clients
  - Empowerment of SMMEs throughout the supply chain
  - Industry affiliations
  - Proof of financial stability/liquidity

During this phase, bidders are shortlisted based on an evaluation of their strategy, proposals, modus operandi and credentials. It is recommended that a maximum of five companies be shortlisted.

- Stage Two: A more concise formal brief may have to be developed / refined for the second phase. This stage will

culminate in a formal presentation of the communication strategy (and in exceptional cases a creative proposal) to an evaluation panel. During this stage bidders are evaluated in relation to functionality (strategy presentation / creative presentation) and price.

Members of the ACA are expected to abide by the code of conduct and adherence is expected to be motivated by peer pressure and democratic sanctions by members. As set guidelines therefore exist for the procurement process the scope of the research was limited to understand internal company compliance thereto. This research provides insight into the evaluation criteria and appointment processes applied during the appointment of agencies considered in phase two. The choice set will therefore consist of a maximum of five agencies that were short-listed based on company specific needs and criteria. Conclusions will consider the buying decision approach employed, the composition of the buying center, and finally the selection criteria used.

### **8.2.1 Decision Process**

Understanding customer buying behavior in business-to-business markets is considered a key to success (Bunn 1993; Hunter, Bunn & Perreault Jr. 2006; Lau, Goh & Lei 1999). According to Bunn (1993) decision approaches are classified based on buying patterns and situations (see section 2.2.2.1, p35). The first finding of this research will therefore consider the buying approach applied by advertisers when agencies are appointed. Bunn's (1993) taxonomy of buying decision approaches will be used to describe the buying approach employed by respondents.

**Table 8.1 Advertisers' Buying Approach**

Variable	Research Results	Theoretical Classification
Purchase importance	Quite to extremely important <ul style="list-style-type: none"> <li>83% of the respondents agreed that advertising expenditure was a major financial commitment to their companies.</li> <li>68% of the respondents agreed that compared to other expenditures, high level of approval was required to appoint the agency.</li> </ul>	Complex modified rebuy Strategic new task
Task uncertainty	Little uncertainty <ul style="list-style-type: none"> <li>81% of the respondents agreed that other agencies were suitable to be appointed.</li> </ul>	Complex modified rebuy
Buyer power	Strong Power Position <ul style="list-style-type: none"> <li>80% of respondents agreed that they had much bargaining power in the appointment of the advertising agency.</li> <li>61% of the respondents agreed that the agency they appointed gave them a much better deal than other agencies.</li> </ul>	Complex modified rebuy Strategic new task
Search for information	High level of search <ul style="list-style-type: none"> <li>81% of respondents obtained a moderate to great extent of information about the reliability of suppliers.</li> <li>77% of respondents obtained a moderate to great extent of information about the capabilities of suppliers.</li> </ul>	Complex modified rebuy Strategic new task
Use of analysis techniques	Moderate level of analysis <ul style="list-style-type: none"> <li>53% of respondents conducted a moderate to great extent of market research on possible suppliers.</li> </ul>	Simple modified Rebuy Judgemental Rebuy
Proactive focus	High level of proactive focus <ul style="list-style-type: none"> <li>Confirmed by the importance of a good working relationship (see section 7.3.5, p268)</li> </ul>	Complex modified rebuy Strategic new task
Procedural control	Followed standard procedures <ul style="list-style-type: none"> <li>66% of the respondents agreed that they had an established appointment process.</li> <li>84% of the respondents agreed that the responsibility in terms of the appointment of an advertising agency was clearly defined.</li> </ul>	Complex modified rebuy

It can therefore be concluded that the buying decision approach applicable to the appointment of an advertising agency complies to that of a complex modified rebuy. However, should an existing contract not be renewed the approach will be described as a

strategic new task. The next section will address the composition and size of the buying center responsible for the appointment of agencies.

### **8.2.2 The Buying Center**

In most cases reported in this study there were two (30% of cases) to three (27% of cases) decision makers involved in the appointment of an advertising agency (see section 7.4.1, p 271). Respondents indicated that in 20% of all cases only one decision maker was involved in the appointment process. However the largest buying center was composed of nine members.

The decisions are mostly made by Senior Marketing Executives but Chief Executive Officers are also key decision makers. Relationships should therefore be fostered on a senior executive level and not be limited to the marketing decision makers.

Operations and procurement representatives were considered in only five percent of all the cases reported, to be key decision makers. In fact, 57% of respondents deemed prescriptions from procurement as either irrelevant or unimportant for the appointment of advertising agencies (see table 7.120, p280). Also important to note is that the financial director is only considered as a key decision maker in four and a half percent of case reported. Thus although the industry perceive to be experiencing more financial and procurement pressures it can be concluded that these pressures are mostly managed from a marketing perspective. Next, criteria used in the selection and appointment of agencies will be discussed.

### **8.2.3 Selection Criteria Used**

When advertisers appoint advertising agencies, the level of creativity is considered by 99% of respondents to be either critical (81%) or



important (19%). This finding confirms the work done by Davies and Palihawadana (2006) who have found that the most important performance dimension that add or detract value from exchanges is largely attributable to the creative process. Low standards of creative work, according to these authors, contributes to agency switching and relationship conflict.

Creative work is however blamed for unreasonable, expensive and indulgent pitching processes and often leads to the demise of smaller agencies because of the costs incurred. As such the best practice guidelines for the procurement of marketing, advertising and PR services / products recommend a creative proposal only in exceptional cases where “absolutely necessary and ideally with the provision of a fee for development attached.” (ACA 2008:12).

This will however remain a contentious issue for the industry as level of creativity is considered critical for both the appointment of and relationship with the agency. Advertisers therefore need to consider this criterion carefully during the selection and appointment of a service provider.

Functionality with regards to quality, professional/technical skills, and quality of client care are considered more important than the actual price. However, price seems to be as important as the agency's reputation (overall reputation and campaign record) and service delivery during the pitch (actual service and compatible personality traits).

Still important but on a lower level is the geographic proximity of the agency, previously held competitive accounts, contractual obligations, BEE, and previous professional relationships. Lastly, respondents

considered history of involvement, directives from head offices, the agency's brand name and procurement prescription to be the least important.

The next section will present an overview of the market environment in which South African Advertising agencies operate by considering insight gained from the preceding discussion.

#### **8.2.4 The Market Environment in which South African Advertising Agencies Operate**

As highlighted in Chapter Six (see section 6.2.1, p180) the advertising industry is a very competitive industry in which clients are spoilt for choice. As advertisers can pick and choose amongst agencies considered to be world standard, the market is seen as a buyer's market which leads to strong buyer power. Advertisers believe that they have bargaining power and can negotiate better deals. The appointment of an advertising agency is however considered to be an important decision that is a major financial commitment and requires high level management approval. Even though switching barriers exist (see section 7.2.4.1, p214), in the form of uncertainty and effort, these barriers will not lead to retention.

When agencies are appointed, advertisers consider their choices carefully and gather a great deal of information pertaining to agencies' reliability and capabilities. Most clients have an established appointment process and internal responsibilities are clearly defined. In fact, in most instances key decision makers include senior marketing executives and chief executive officers. Critical selection criteria mostly include issues related to functionality, reputation, and price. BEE is becoming less important from a client perspective (see section 6.2.1, p180) but agencies seem to comply to the industry scorecards.

There is a strong proactive focus from both parties and the relationships are seen as close and enduring. Indeed, 71% of the respondents in this study indicated that if working conditions remained the same, the propensity for them to continue with the current relationship would be between 76 and 100%. The average duration of relationships, as indicated by respondents of this study, was five years. Most contracts are reviewed and evaluated annually and remuneration is mostly based on a project basis.

Retention is therefore seen as a strategic mandate and a priority for both the agency and advertiser. The next section will provide a holistic and integrative overview to retention as applicable in the South African advertising industry.

### **8.3 Retention: An Integrative and Holistic Perspective**

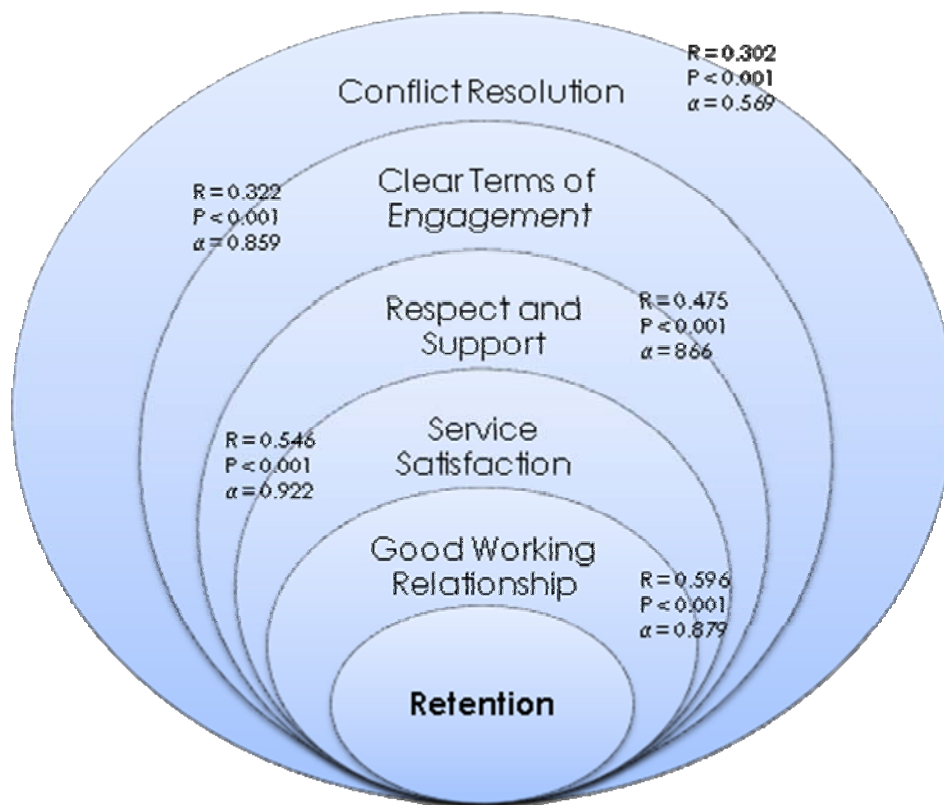
This thesis argued the importance of client retention as a strategic mandate in today's service markets. More specifically, this thesis focused on the advertising industry in order to gain a better understanding of business relationships with specific reference to agency replacement considerations.

Commercial reality demands long and lasting relationships that are beneficial to both agencies and their clients. However, advertising agency-client investigations have mostly only focused on the attributes associated with evaluating and selecting advertising agencies and in many instances these investigations have analysed these attributes in isolation (Han, Kwortnik & Wang 2008; Palihawadana & Barnes 2005). According to Han, Kwortnick and Wan (2008) studies that focus on customer loyalty and retention tend to use subsets of factors that are theoretically related but rarely examined together. This presents a

challenge for marketers, as survival and success hinge on making effective judgments about how customers approach supplier selection decisions (Hunter, Bunn & Perreault 2006).

The major finding of this research is therefore to provide an integrative and holistic perspective to client retention. Previously, existing research had not considered all dimensions of retention simultaneously. Indeed, models are needed that represent the interrelated effects that engender retention and loyalty, especially for services, whereby evaluative as well as relational factors can influence buyer responses (Han, Kwortnik and Wang 2008). Considering theory that originates from the transactional cost theory, social exchange theory and economic and relational contract theories a complex, integrated conceptual model was presented (see figure 4.1, p113). This model was empirically tested, and factor analysis and correlation analysis were used to explore the dimensionality of the retention construct. The result of this research suggests a multi-dimensional model of retention as illustrated in figure 8.1 below. This model suggests that a multi-dimensional approach to retention is more appropriate than considering single dimensional factors.

**Figure 8.1 Agency Replacement Consideration Set**



### 8.3.1 Good Working Relationship

A good working relationship is an essential element of client retention. This finding is in agreement with research done by Caceres and Paparoidamis (2007) that highlights that due to the complexity of the products and services and the long-term relations in the advertising industry, effective and satisfactory business relationships are of the greatest importance. Although a plethora of work exist regarding the initiation of agency-client relationships, significantly less has been concluded that focus on the nuances associated with nurturing and developing ongoing relationships (Pahihawadana & Barnes 2005). This thesis offers insight into these nuances and found that in order to foster a good working relationship with agencies, advertisers expect agencies to:

- Be sincere;
- Be concerned about their welfare;

- Verbalise the terms of the relationship as well as the terms for sharing information.

The relationship is further enhanced if both parties are committed to the relationship, if they enjoy working together and if their philosophies match. Lastly, both parties should believe that the relationship deserves their maximum effort.

### **8.3.2 Service Satisfaction**

As the primary tool for managing client retention, client satisfaction has received unflagging attention in the marketing literature (e.g. Anderson & Sullivan 1993; Fornell 1992; Fournier & Mick 1999; Szymanski & Henard 2001). Davies and Palihawadana (2006) found that performance satisfaction is important for maintaining relationships. This research found client satisfaction is indeed indicative of a strong positive association with contract renewal and thus client retention. Satisfaction dimensions (service output and performance) that are deemed important to retain clients are listed in order of priority (see table 7.6, p205) below:

- Integrity of advice offered
- Professional / technical skills
- Quality
- Client care
- Compatibility of working styles
- Stability of key account management
- Compliance with budget limitations
- Level of creativity
- Consistent work processes
- Strengths in strategic thinking
- Empathy to creative changes
- Constant information of account status

- Correct interpretation of briefing
- Pro-activity in generating new ideas
- Access to creative teams
- Price

Service satisfaction is therefore closely associated with service quality and performance and should consider both dimensions.

### **8.3.3 Respect and Support**

Factor analysis was applied to measurement items measuring service output. A new factor labeled 'respect and support' was identified and further analysis confirmed a correlation and association with client retention (see section 7.3.4.2a, p 259). This factor addresses the principle of generalized reciprocity, that holds that "mistrust breeds mistrust and as such would also serve to decrease commitment in the relationship and shift the transaction to one of more direct short-term exchanges" (McDonald 1981).

Respect and support is the result of seven variables namely;

- The agency can be counted on to be sincere;
- The agency is concerned about our welfare when important decisions are made;
- We are satisfied with the quality of people assigned to the account;
- The agency's personnel thoroughly learned the characteristics of our business;
- The agency is willing to make recommendations and/or object to our decisions when they believe them wrong;
- The agency's representatives are frank in dealing with our company;

- Our company and our advertising agency share relevant cost information.

'Respect and support' is a new factor, developed by this thesis, and offer a contribution to the marketing literature in terms of more insight into the client retention intentions.

### **8.3.4 Clear Terms of Engagement**

A second factor, namely clear terms of engagement, was developed as a result of factor analysis applied to measurement items measuring service output. Further analysis confirmed a correlation and association with client retention (see section 7.3.4.2c, p 262).

According to De Ruyter, Moorman and Lemmink (2001) communication is considered when relations are evaluated by customers and communication is also an important input to customer commitment. The findings of this study add to this by highlighting that communication should be enhanced by setting clear terms of engagement. Clear terms of engagement is the result of two variables namely; verbalisation and discussion of the basic terms of the relationship, and explicit verbalization and discussion of the basic terms for sharing information between the client and advertising agency.

'Clear terms of engagement' is a new factor, developed by this thesis, and offers a contribution to the marketing literature in terms of extending communication from 'formal and informal sharing of meaningful and timely information between firms' to the discussion and verbalization of the basic terms for the relationship as well as sharing of information between the firms.



### **8.3.5 Conflict Resolution**

The last factor that was developed as a result of factor analysis applied to measurement items measuring service output was labelled 'conflict resolution'. Further analysis confirmed a correlation and association with client retention (see section 7.3.4.2c, p 265).

In relationships conflict may occur as a result of disagreement or perceived impediment of the attainment of mutual goals and objectives. Although conflict can have a negative effect on relationships, solving conflicts constructively may actually strengthen inter-organisational relationships and lead to greater trust and effective commitment (De Ruyter, Moorman & Lemmink 2001). Conflict resolution occurs when conflict is seen as productive discussion and disagreement improves productivity. Lastly, advertisers expect agencies to give them the benefit of doubt.

Although conflict resolution is not a new factor this thesis confirmed that conflict resolution is indeed a retention consideration. Insight is further provided to agencies on clients' expectations regarding the approach to conflict resolution.

## **8.4 Implications for Practitioners**

### *Challenges presented to advertising agencies*

The South African advertising industry is considered to be a buyers' market and clients expect nothing but the best. Level of creativity, though expensive to produce during pitching, remains a determining factor for agency appointment. Clients agree that service uncertainty and time required to change service providers are considered switching barriers, but these barriers will not lock clients into a relationship or lead to client retention.

### *Client relationship guidance to agencies*

Clients value relationships with agencies, as the appointment of an agency is perceived as a major financial commitment that requires high level of approval. Furthermore, clients acknowledge the strategic role agencies play within their organizations. Both clients and agencies will benefit from a holistic and integrative view to retention. The model presented in figure 8.1 can therefore be used to measure and manage business relationships between advertisers and agencies. This will improve the business relationship for both parties and can be used to strengthen and build long term relationships.

### *Transformation within the advertising industry*

In general the advertising industry has evolved significantly during the past democratic decade. On the surface all the necessary mechanisms were put in place including an "Industry Value Statement", a "Marketing, Advertising and Communication Industry Transformation Scorecard" as well as a set of "Best Practice Guidelines for the Procurement of Marketing, Advertising and PR Services / Products". All relevant industry and government stakeholders were consulted in this process and committed their adherence to the values, targets and guidelines set to improve the rate of transformation.

Considering the compliance to the scorecards one would be inclined to congratulate the industry on a job well done. However, transformation is more than complying to numbers on a scorecard, it is about taking responsibility for the development of sustainable processes that will ensure true transformation and not unjust enrichment or short term measures that create compliance.

Although all stakeholders were involved in setting targets and guidelines it seems as if the expectations are that advertising agencies

should take the responsibility for transformation. This is not possible without the assistance of government, training institutions and the marketing fraternity.

Training institutions should consider industry requirements and develop youngsters accordingly. The focus should be quality graduates that would be able to add value to the industry and not only turnover and profit. Agencies, with the assistance of government, should provide more learnership opportunities. Interns should receive quality on the job training and should be welcomed as part of the team by both the agency and the advertiser.

Mentoring of new staff should be encouraged and youngsters with potential should be offered the opportunity to develop their leadership skills amongst peers. Career development planning is essential and staff should be well prepared and have the necessary experience before promotions are considered.

Transformation is about people and not about numbers. Measurements should therefore not only consider the quantitative components of transformation but it should be extended to consider the qualitative components required for true transformation. These softer issues should include participation to industry initiatives to promote marketing and advertising fields as good career options to youngsters; recruiting quality people; regular contact, interaction and collaboration between the industry, training institutions and government; on the job training programs; career development planning; mentoring; exposure to and interaction with clients.

Marketers should adhere to best practice guidelines when agencies are appointed and leadership positions should be earned.

## 8.5 Academic Implications

### *A more complete understanding of service retention and loyalty*

This thesis was introduced by highlighting that retention is not the same as loyalty. The research did however confirm that there is a significant relationship between client retention and client loyalty. It can therefore be concluded that higher retention rates would positively correlate to higher levels of client loyalty. Insight into client retention will thus provide insight into client loyalty.

### *Insights into the structure of client retention for services*

This research has developed a comprehensive theory-driven retention model. An important contribution of this study is the use of multi-item scales to measure and test retention. This research supports that retention is multidimensional and highlights the limitations of research that measure single factors related to retention.

### *The complex role of working relationships and service satisfaction in client retention*

Client retention is not only an outcome based on agency effort and performance but rather the result of interactional quality dimensions. It can therefore be concluded that mutual effort is required to achieve client retention. Furthermore, it should be highlighted that a good working relationship is a prerequisite for service satisfaction.

### *Unique retention measures for the South African Advertising Industry*

This thesis created two new factors to consider when retention is measured namely; support and respect as well as clear terms of engagement as discussed in section 8.3 of this chapter. This research therefore contributes to the literature by providing a more complete,

integrated view of customer retention and its determinants in service contexts.

## **8.6 Limitations**

There are several limitations to the work presented here. Firstly, there is a need to validate models created in one setting with examination in other settings (DeWulf, Odekerken-Schroder & Iacobucci 2001). As this model was developed for the South African advertising industry, a potential limitation may be presented when applied to other parts of the world or other service industries.

Secondly, the sample size prohibited the utilization of multi varied modern techniques such as structural equation modelling.

Lastly, the cross-sectional design of the study presented a limitation as retention is dynamic and the relative influence of antecedent factors evolves as relationships mature.

## **8.7 Future Research**

This research can be extended to other service industries both locally and globally as the generalization of this model would be enhanced by replication in other settings.

Future research may develop a consideration set for loyal versus retained clients in order to identify the factors that will convert a retained client to a loyal client.

This study should be repeated with a larger sample to enable the utilization of structural equation modelling and hence provide further support for the model.

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**Annexure 1**  
**Top 100 Advertisers: Total All Media 2006**

## Top 100 Advertisers: Total All Media 2006

Rank	Advertiser	Total (Rm)	Print (Rm)	TV (Rm)	Radio (Rm)
1	Mobile Telephone Network	397,6	180,0	161,5	56,1
2	Shoprite Checkers	393,4	259,6	84,4	49,3
3	Vodacom Communication	363,9	139,0	150,1	74,8
4	Pick 'n Pay	331,8	232,6	83,3	15,9
5	Unilever SA HPC	265,9	17,8	211,4	36,8
6	Cell C	232,4	88,7	112,2	31,5
7	Nedbank	225,4	100,2	75,9	49,3
8	Standard Bank	225,4	115,4	52,9	57,0
9	FirstRand Bank	223,9	73,8	73,0	77,1
10	JD Group	223,1	60,5	148,8	13,8
11	Absa	214,1	101,8	60,3	52,1
12	Reckitt & Benckiser	206,9	3,5	191,2	12,2
13	Ford Motors Co	200,6	39,9	137,2	23,6
14	Government national	191,5	69,7	51,0	70,8
15	Distell	176,6	28,1	120,9	27,5
16	Procter & Gamble	173,0	10,2	161,7	1,1
17	Edcon	169,0	56,7	78,8	33,
18	Coca Cola SA	165,0	6,9	134,8	23,3
19	SAB Miller	154,0	10,9	102,2	41,8
20	Spar SA	144,8	93,5	37,5	13,8
21	Telkom SA	144,2	55,2	64,5	24,5
22	Mass Stores	142,9	88,7	46,0	8,3
23	Kentucky Fried Chicken	137,6	5,3	106,7	25,6
24	New Clicks SA	135,2	41,1	82,7	11,5
25	L'Oréal	132,0	43,7	88,2	0,1
26	Unilever SA Food	130,9	7,1	108,1	15,7
27	Tiger Brands	118,3	11,1	82,9	24,3
28	Toyota SA	117,0	52,1	48,7	16,1
29	Clover SA	116,4	7,1	106,3	3,0
30	Brandhouse	113,3	4,6	85,0	23,7
31	General Motors	112,4	34,5	67,1	10,8
32	Multi Choice Africa	105,4	65,1	13,8	26,5
33	Relyant Retail	92,1	30,7	50,2	11,2
34	Hyundai SA	91,2	2,9	85,9	2,4
35	Volkswagen	85,1	36,0	45,0	4,1
36	Foschini Group	82,5	27,1	53,5	1,9
37	Ster-Kinekor Films	79,2	2,7	76,5	0,0
38	Verimark	79,9	2,8	77,1	0,0
39	Outsurance Insurance	76,9	25,2	29,1	22,5
40	Glomail Order	76,5	0,5	76,0	0,0
41	DaimlerChrysler SA	76,0	39,1	27,5	9,4
42	Government KZN	75,2	33,9	0,8	40,5
43	Virgin Group	74,5	27,2	32,4	14,9
44	Beiersdorf Consumer Prod	73,6	7,0	65,6	1,0
45	Pepkor	71,3	5,2	45,4	20,7
46	GlaxoSmithKline	70,4	4,2	64,0	2,1
47	Kellogg's Co SA	68,8	1,2	66,9	0,6
48	e.tv	68,7	44,1	16,7	8,0
49	Gillette SA	68,5	6,5	61,4	0,6
50	Altech Technology	66,2	35,6	21,1	9,6
51	Liberty Life	64,3	46,8	11,3	6,1

52	Uthingo Management	63,9	15,7	28,9	19,3
53	Samsung Products	62,6	15,3	45,8	1,4
54	Sasol SA	61,9	12,1	41,4	8,4
55	Adcock Ingram (Tiger SA)	61,1	10,7	39,1	11,3
56	Government Gauteng	59,7	25,4	7,5	26,8
57	Media24	59,4	25,0	20,7	13,7
58	Nu Metro Film Distribution	59,2	36,1	17,8	5,3
59	Love Life	57,2	0,3	36,4	20,5
60	Colgate Palmolive	56,7	0,7	53,4	2,7
61	Nokia Communications	56,5	13,4	39,2	3,9
62	Old Mutual	56,5	29,9	11,5	15,1
63	Eskom	56,3	18,6	17,5	20,2
64	SABC	56,3	54,2	1,1	1,0
65	Reliable Hawker	54,8	0,6	35,9	18,2
66	Wimpy	54,7	3,6	36,1	15,0
67	Revlon SA	54,5	13,4	39,6	1,4
68	BMW SA	53,5	22,2	23,7	7,6
69	McCarthy Dealers	52,9	42,3	5,3	5,3
70	Hyundai Car Dealers	52,4	43,5	0,07	8,8
71	LG Electronics	52,2	7,1	43,3	1,8
72	Budget Insurance	51,9	32,4	14,4	5,1
73	Nissan SA	49,9	11,1	25,9	12,9
74	Nestlé	49,7	5,4	38,9	5,4
75	Renault Afr	48,9	12,3	25,7	10,9
76	Shell SA	48,5	10,8	19,1	18,6
77	Sanlam	47,6	18,0	20,1	9,4
78	Ackermans	47,4	15,1	30,6	1,7
79	Nashua	46,7	20,4	14,8	11,5
80	SAA	46,6	26,7	14,4	5,4
81	SC Johnson	45,7	0,2	43,9	1,6
82	Sony SA	44,2	9,1	31,9	3,2
83	Homemark Mail Order	42,9	1,2	41,6	0,0
84	Caltex SA	42,0	6,5	31,3	4,2
85	National Brands	41,7	4,5	35,1	2,1
86	Simba	41,4	1,0	36,9	3,5
87	Motorola SA	41,2	6,6	27,7	6,9
88	Cadbury-Schweppes	41,0	5,9	28,2	6,8
89	Sun International	40,8	18,7	9,3	12,8
90	Engen	40,1	3,8	25,0	11,3
91	Ellerines Furnishers	39,7	7,6	32,1	0,02
92	Mr Price Group	39,1	27,1	8,1	4,0
93	Peugeot SA	37,5	7,9	19,1	10,5
94	iTalk Cellular	36,7	16,4	5,8	14,5
95	Sara Lee	36,6	2,2	31,2	3,2
96	Santam	36,5	14,0	16,3	6,3
97	McDonald's Fast Foods	36,0	1,5	29,3	5,6
98	BP SA	35,8	4,1	23,6	8,2
99	Honda SA	35,4	12,6	21,5	1,7
100	Fruit/Veg City	35,3	18,1	14,9	2,3

Source: Ad Focus (2007b)

## **Annexure 2**

### **Advertising Agencies Profile**

## Advertising Agencies Profile

Agency	Income Rm 2005	Accounts Gained 2005	Accounts Lost 2005	Total Staff 2005	Equity % 2005	Years in Industry 2006	Biggest Client
Admakers International	75,0	6	0	25	33	15	Urban Group Ocean
ARM Advertising & Design	12,4	2	0	14	51	24	Mutual & Federal
BBDO Cape Town	46,0	6	0	88	40	23	Checkers
Bester Burke	12,0	5	0	30	0	6	Indigo Cosmetics
Black River FC	4,1	4	1	7	32,5	1	Virgin Money
Blueprint Strategic Marketing Comms	23,0	6	1	22	100	6	National Ports Authority
Bombaysmith	23,0	3	0	5	100	3	Netbank Personal Banking
Boom Town Advertising	5,0	4	0	25	25	13	Nelson Mandela Metro
Chillibush	29,0	7	1	27	40	8	Worldspace
CLM Advertising	6,25	5	0	13	50	7	Bacardi Martini
DDB SA	30,0	12	0	35	40	5	Unilever
Elements Advertising & Marketing	7,0	4	0	27	100	11	Gauteng EDA
FCB SA (CT)	39,0	8	0	96	26	79	Distell
FCB SA (DBN)	17,0	5	1	45	26	79	Unilever
FCB SA (JHB)	101,0	7	1	249	26	79	Toyota
Grey Worldwide SA	45,0	8	3	104	45	16	Nokia
Herdbuys	52,0	4	1	91	26	15	Telkom
Mccann-Erickson							
Hippocampus	8,0	5	0	23	26	7	Goodyear
Inroads	14,0	14	5	43	100	6	Anglo American
Multimedia Ireland/ Davenport	1,0	4	0	5	60	1	BMW
Joe Public Advertising Restaurant	4,0	6	1	15	26	8	Telcom
JWT Group CT	20,0	1	1	43	30	78	Shell SA
JWT Group JHB	88,0	4	3	119	30	78	ABSA
King James	25,0	10	3	54	26	8	Brandhouse
Lobedu Leo Burnett	33,0	2	3	49	51	30	Procter & Gamble brands
Lowe Bull (CT)	16,0	4	0	37	26	5	Coca-Cola
Lowe Bull (Gauteng)	35,0	5	1	77	26	5	Unilever
Lowe Bull Truth	9,0	6	0	12	26	5	East Coast Radio
Morrisjones & Co	10,0	3	1	27	0	5	Virgin Mobile
Net#work BBDO	88,0	5	0	110	40	12	Cell C
O'Brien	17,0	7	1	19	100	9	Banking Ass of SA
Ogilvy Cape	93,0	14	0	205	42	30	Old Mutual
Ogilvy Durban	10,0	1	1	34	39	7	Defy
Ogilvy JHB	100,0	18	1	210	42,9	35	KFC
Open Group	10,0	3	1	15	51	5	City of JHB
Publicis	30,0	2	0	57	26	25	Renault
Red Nail	14,6	7	0	16	51	16	Fiat Auto SA
Saatchi & Saatchi SA	65,0	3	1	146	52	39	Guinness Africa



TBWA\Hunt\Lascares DBN	50,0	6	1	112	30	22	Spar
TBWA\Hunt\Lascares JHB	98,0	15	3	141	30	22	Standard Bank
The Flagship Group	25,0	5	1	40	25	9	Tsogo Sun Group
The Hardy Boys	39,0	6	2	77	0	12	Unilever
The Jupiter Drawing Room (Cape Town)	29,0	10	1	96	32,5	13	Sanlam
The Jupiter Drawing Room (JHB)	53,0	11	2	125	26	17	Edgars
The Jupiter Drawing Room (SA)	87,0	17	4	228	30,25	17	Edcon
The Old Shanghai Firecracker Factory	23,0	8	0	32	25,1	11	Mitsubishi Motors
The Teamworks Advertising	1,0	4	2	5	0	6	Masterfoods
TTW Advertising	5,6	3	1	17	0	8	DGB (Alcoholic beverages)
Vutha Advertising & Marketing	11,0	7	5	19	75	4	Department of Arts and Culture
Young & Rubicam Brands (JHB)	65,0	6	1	308	30	75	Pick 'n Pay
Young & Rubicam Brands (CT)	18,0	4	1	28	30	75	Chevron SA
<b>Young &amp; Rubicam Brands Hedley Byrne</b>	68,0	0	0	163	0	75	Pick 'n Pay

*Source: Data presented in Ad Focus (2006c) and Agency websites*

## **Annexure 3**

### **The Value Statement**

## The Value Statement

Of an industry which is global in its outlook and reach, and genuinely South African in its roots, we of the marketing and communication industry:

- acknowledge that like the rest of South African society, we have been plagued by the injustices of South Africa's racist past in terms of employee representivity, ownership and decision-making
- recognise that the industry plays a critical role in the creation of wealth and the development of our economy
- believe that transformation of the industry is essential for its long-term growth and the upliftment of people who have historically been disadvantaged.

In the spirit of the Constitution of South Africa, we believe that

South Africa belongs to all who live in it, united in our diversity and committed to improve the quality of life of all citizens and the potential of each person.

*We hereby commit ourselves to the following values:*

1. *Inclusivity and Diversity*
  - a) The sector reflects and shapes the norms of our society. As such it must be committed to reflecting the values and aspirations of all South Africans.
  - b) This requires that the industry – in its ownership as well as in the traditions and cultures it draws upon – to reflect the diversity of the South African population.
  - c) The industry is committed to sustainable skills development, which enables all our people to enjoy access to the knowledge base needed to shape their destinies within the industry.
2. *Soul of the Nation*
  - a) This industry works in the context of a unique transition – a transition described as a miracle.
  - b) We shall use our strengths to promote pride in the South African Brand.
  - c) The industry can contribute to the transition by promoting understanding and appreciating our diverse cultures, traditions, histories, abilities and disabilities. It can highlight prejudice where it exists by promoting tolerance of all human beings. In doing so, the sector can become a mirror of the soul of the nation.
3. *Respect and Human Dignity*
  - a) The industry works in a society where the poor, the illiterate, the disabled, women and children suffer a myriad of intolerances. While working for their amelioration and empowerment, the industry shall ensure that the dignity of all human beings, and in particular of these vulnerable groups, is respected.
  - b) The industry recognises the difficulty of escaping the stereotyping of any group. Where this has to be resorted to, the industry shall take particular care not to stereotype or use humour in a manner to target groups mentioned above.
4. *Business and People's Needs*
  - a) We recognise that the consumer is at the core of our business. Recognising that the industry serves business in its endeavour to create wealth, we shall ensure that the requirement and sensitivities of the consumer are placed at the centre of all our creativity and planning. In doing so, we shall better serve the commercial needs to business as well as the long-term aspirations of the South African nation.
  - b) Furthermore, the industry shall be committed to abiding by the principle of good corporate governance and abide by the highest standards of ethical business practices.
5. *Responsible Creativity*
  - a) We are mindful that this is an industry which impacts on the views and aspirations of the entire population.
  - b) This means that the industry must act sensitively while endeavouring to break the bounds of creative barriers. Such commitment will lay the basis for a self-regulation regime that can best serve all stakeholders.
  - c) This commitment must not place limits upon the various freedoms enshrined in the Constitution and protected by the Bill of Rights, especially the Freedom of Expression."

*Source: Marketing, Advertising and Communication Charter (2005:2-3)*

**Annexure 4**  
**Marketing, Advertising and Communication**  
**Scorecard**

## Marketing, Advertising and Communication Scorecard

Core Components	BEE Elements	Core Ref	Weighting	Indicators	Indicator Weighting	Targets	Time Frame		
							2006	2009	2014
Direct Empowerment	Ownership	BEE 100	20%	Exercisable voting rights by black people	4%	25%+1	25%	30%	45%
				Exercisable voting rights by black women	2%	10%			
				Economic interest in enterprises to which black people are entitled	3%	25%			
				Economic interest in enterprises to which black women are entitled	2%	2.5%			
				Economic interest in enterprises to which black designated groups are entitled	1%	3%			
				Ownership fulfilment	1%	No restrictions			
				Net economic interest	7%	30% of target (yr 1-2) 60% of target (yr 3-5) 100% of target (yr 6-8)			
				Ownership by BBBEE schemes and new entrants	3%	Bonus per each level of 5%			
	Management	BEE200	10%	Exercisable voting rights by black people	3%	50%	25%	30%	50%
				Members of the board who are black people	1%	50%			
				Members of the board who are black women	1%	25%			
				Black senior executive representation	2%	40%			
				Black women senior executive representation	1%	20%			
				Black other executives	1%	40%			
				Black women executives & other executives	1%	20%			
				Black independent director representation (Bonus)	1%	40%			
Human Resource Development	Employment equity	BEE 300	10%	Employment Equity stats across all job levels	12%	50%	25%	30%	60%
				Weighted black women representation across all job level	8%	50%			

Core Components	BEE Elements	Core Ref	Weighting	Indicators	Indicator Weighting	Targets	Time Frame		
							2006	2009	2014
	Skills Development	BEE400	10%	Investment in skills development (incl. skills development levy) as a percentage of payroll Indicator under residual element	10%	3%	1%	2%	3%
Indirect Empowerment	Preferential Procurement	BEE500	20%	Level 1 Contributor, as verified by BEE verification agencies institute under Statement 020 (Recognition of R1,35 for every R1 spent) Level 2 Contributor, as verified by BEE verification agencies institute under Statement 020 (Recognition of R1,25 for every R1 spent) Level 3 Contributor, as verified by BEE verification agencies institute under Statement 020 (Recognition of R1,10 for every R1 spent) Level 4 Contributor, as verified by BEE verification agencies institute under Statement 020 (Recognition of R1,00 for every R1 spent) Level 5 Contributor, as verified by BEE verification agencies institute under Statement 020 (Recognition of R0,80 for every R1 spent) Level 6 Contributor, as verified by BEE verification agencies institute under Statement 020 (Recognition of R0,60 for every R1 spent) Level 7 Contributor, as verified by BEE verification agencies institute under Statement 020 (Recognition of R0,50 for every R1 spent) Level 8 Contributor, as verified by BEE verification agencies institute under Statement 020 (Recognition of R0,10 for every R1 spent)					

Core Components	BEE Elements	Core Ref	Weighting	Indicators	Indicator Weighting	Targets	Time Frame		
							2006	2009	2014
Indirect	Enterprise Development	BEE 600	10%	Cumulative quantified contribution to enterprise development over the previous five years over average profit before tax, interest and dividend over the previous five years	10%	1% - year 1 and 2 2% - year 3 and 4 3% - year 5 and 6 4% - year 7 5% - year 8	1-2%	3-4%	5%
	Preferential	BEE 700	10%	Cumulative contribution to social development and industry specific initiatives over the previous five years over average profit before tax, interest and dividend over the previous five years	10%	1% - year 1 and 2 2% - year 3 and 4 3% - year 5 and 6 4% - year 7 5% - year 8	1-2%	3-4%	5%
			10%	People employed through learnerships (as a percentage of total employees)	10%	3%	1%	2%	3%
<b>TOTAL</b>	<b>ELEMENT WEIGHTING</b>		<b>100%</b>		<b>100%</b>				

*Ref: Marketing, Advertising and Communication Charter (2005:4-6)*

**Annexure 5**  
**Best Practice Guidelines for the Procurement of**  
**Marketing, Advertising and PR Services / Products**



# best

practice guidelines for the procurement of



Marketing, Advertising and  
PR services / products



government  
communications  
National Treasury





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**Compiled by:**

Government Communications (GCIS), National Treasury and the Association for Communication and Advertising (ACA)



# 1. Introduction

1.1 In November 2002, government and industry submitted a consolidated report to the Portfolio Committee on Communications on the state of transformation in marketing and advertising. Government noted in its concluding remarks to the committee the need to ensure that existing procurement policies are used to their full potential to promote transformation and to assist small, medium and micro-enterprises (SMMEs) to participate in the industry. In this regard, the following was observed:

- Through its procurement policy, government has mechanisms in place to promote and influence employment equity and to assist SMMEs to participate in the economy. Whether the present provisions are being used to their full potential or whether there is scope for more ways to strengthen equity, needs assessment.
- Procurement policies of major public entities, which entail substantial spending on advertising and PR, are not fully aligned with those of government.<sup>1</sup>
- There is a need to assess what constrains and what promotes preferential procurement in the industry.


1.2 Within this context, the best practice guidelines for the procurement of marketing and advertising seeks to:

- address gaps hampering the effective use of procurement policies and guidelines, including in subcontracting, by all partners – government, parastatals and the industry – to assist the process of transformation
- ensure procedures for the procurement of marketing, advertising and PR promote participation of small black-owned enterprises in government bids
- foster closer alignment of procurement policies for marketing and advertising practices of major public entities with that of government.

<sup>1</sup> Schedule 2 Major Public Entities, though guided by the prescripts of the Public Finance Management Act (PFMA), 1999, do not have to ascribe to government's procurement practices, unless the Accounting Authority of the department responsible for the public entity enforces compliance.

## 2. Government procurement and supply chain management

- 2.1 Cabinet adopted a Supply Chain Management (SCM) Policy in September 2003 to replace the outdated procurement and provisioning practices across government with a SCM function that will form an integral part of financial management and will conform to international best practices. The four major objectives of the policy are to:
- transform government procurement and provisioning practices into an integrated SCM function
  - introduce a systematic approach for the appointment of consultants
  - create a common understanding and interpretation of the Preferential Procurement Policy Framework Act (PPFPA), 2000
  - promote the consistent application of “best practices” throughout government’s supply chain.
- 2.2 The SCM office in National Treasury is currently overseeing implementation of this policy in conjunction with provincial treasuries and chief financial officers from the different spheres of government. The training of relevant beneficiaries is also currently underway.
- 2.3 Parallel to this process, Cabinet approved the publication of the Broad-Based Black Economic Empowerment (BEE) Act, 2003 and a supporting strategy, which led to amendments to the Preferential Procurement Regulations during the course of 2005. The main aim of the intended amendments to the regulations is to align them to the Broad-Based BEE Act, 2003. Government’s BEE strategy aims to accelerate indirect empowerment through preferential procurement and enterprise development.
- 2.4 In accordance with the Treasury Regulation 16A6.1 of the PFMA, 1999 that was promulgated on 15 March 2005, National Treasury is required to determine threshold values for the procurement of goods and services by way of price quotations or through a competitive bidding process.




Accounting officers/authorities should apply the following threshold values when procuring goods or services within the marketing communication value chain:

- 2.4.1 Above the value of R2 000, but not exceeding R10 000 (VAT included): at least three verbal quotations have to be obtained from, where applicable, a list of prospective suppliers.<sup>2</sup>
- 2.4.2 Up to an estimated value of R200 000: price quotations have to be invited from a minimum of three companies or as many suppliers as possible, registered on the list of prospective suppliers. Prescripts of the PPPFA, 2000 and its regulations are applicable to all procurement equal to or above R30 000.
- 2.4.3 Above the estimated value of R200 000: competitive bids have to be invited through a competitive bid process. Bids are advertised in the *Government Tender Bulletin*. The prescripts of the PPPFA, 2000 and its regulations are applicable to all procurement through competitive bids.

<sup>2</sup> All departments are required to compile a list of prospective suppliers to be used to procure requirements up to the value of R200 000. The list is used to promote participation by historically disadvantaged individuals (HDIs) and SMMEs within the public sector SCM.

### 3. Government bids for marketing, PR and advertising – current realities

- 3.1 Shortcomings in government's procurement system – e.g. the lack of uniformity and consistency with respect to the implementation of government procurement policies in the sourcing of marketing, advertising and PR services – have given rise to concerns among bidders about the integrity of the system. In this regard, the following matters were raised by service-providers in the industry:
  - 3.1.1 specifications and briefs for advertising campaigns or branding projects are often vague and lack information on the applicable evaluation criteria
  - 3.1.2 SMMEs struggle to compete due to the costs involved in preparing strategies and creative concepts prior to the short-listing phase
  - 3.1.3 "shortlists" often consist of a large number of bids, e.g. up to 17 companies or more
  - 3.1.4 there is a lack of communication with bidders on the status of bids – agencies thus sometimes incur cost to pitch for bids that have been withdrawn or bids are withdrawn after costs have already been incurred
  - 3.1.5 SMMEs are reluctant to bid for government contracts due to the resources required for submissions and a perception that the process is not entirely "fair"
  - 3.1.6 current government procurement policies are not mandatory for major public entities
  - 3.1.7 requests for irrelevant/ambiguous information protract the bidding attempt by interested companies.

- 
- 3.2 The best practice guidelines for the procurement of marketing, advertising and PR proposed in section 4 are aimed at addressing these concerns and, within the framework of government's Broad-Based BEE strategy, at promoting participation by small black-owned enterprises in government bids to accelerate indirect empowerment.

# 4. Best practice guidelines for government advertising, PR and marketing bids

The purpose of these guidelines<sup>3</sup> is to provide guidance for public bodies on an approach to procuring advertising, PR and marketing communication services, which recognises the particular characteristics and conditions that exist in this market. The aim is to secure an outcome that serves the best interest of both government clients and suppliers of marketing and advertising services and to significantly reduce both development costs and response times for government departments and advertising and marketing/branding agencies.

## 4.1 Planning for advertising, PR and marketing bids

By its nature, government business is fast-paced and fluid. Some communication projects require implementation at short notice and products and services have to be produced on a quick turn-around time. Other government campaigns have longer lead times, which allow government communicators adequate time for planning. The two most commonly used procedures applied in bidding for public contracts are the (i) competitive bidding procedure and the (ii) limited bidding procedure. Depending on the campaign timeframes and available budget, departments can select any one of these bid procedures. The following outlines considerations that are relevant with regard to the type of procedure to be used in awarding advertising and communication contracts:

### 4.1.1 Limited bidding procedure

4.1.1.1 The limited bidding procedure applies when competition is limited and only a few bidders are allowed to submit proposals (and/or are capable of delivering

<sup>3</sup> Guidelines produced by the Institute of Advertising Practitioners in Ireland as well as the Advertising Federation of Australia have been consulted and used as the foundation of these guidelines, adapted to meet the needs of the South African market.





the required service). The limited bidding procedure is a two-stage process. Firstly, requests for information (RFIs) are sought from interested parties in which they are requested to supply information on their qualifications; BEE credentials; experience; technical, professional and financial capacity, etc. The brief, outlining the service requirements, should form part of the RFI terms of reference (see Annexure I for an example of a RFI form).

- 4.1.1.2 In the RFI, the contracting authorities should carefully consider and clearly outline their requirements in terms of their budget, specialisations required, agency size, etc. Criteria for pre-selection may, among other things, include qualifications and expertise of key management, strategic and creative personnel, track record and/or experience and insight as indicated by particulars of projects executed for past and present clientele, BEE credentials, financial standing as indicated by most recent balance sheets, turnover for up to three years, or information as required by the accounting officers (heads of department). The RFI form provides further examples of criteria against which financial standing may be assessed. While it is strongly recommended that, other than in exceptional circumstances, the pitch should be limited to credentials, it must be clear from the brief whether credentials<sup>1</sup>, communication<sup>2</sup>, strategic proposals<sup>3</sup> or combined strategic and creative proposals<sup>4</sup> are required.
- 4.1.1.3 Creative pitches require enormous amounts of time and financial investment from creative agencies and this investment cannot be justified on smaller contracts. In this regard, a call for creative pitches is strongly discouraged. It should be noted that remuneration of short-listed companies for the development of creative work could be regarded as fruitless expenditure – in term of the prescripts of the PFMA, 1999 – if special approval has not been obtained from National Treasury in this regard. The department should therefore indicate in the briefing specifications that creative concepts are not required and that agencies which submit creative concepts will be disqualified, to ensure a level playing field. However, in exceptional cases where creative pitches by short-listed agencies are a critical requirement, remuneration to cover the development of creative concepts (creative pitching) should be approved by the Accounting Officer of the department concerned, and remuneration should be disclosed in the briefing document in rand and/or percentage of contract value of the bid. However, each case would need to be treated on its own merits.
- 4.1.1.4 It should be noted that in all cases copyright for the creative ideas submitted by unsuccessful agencies remains the property of those agencies, and any remuneration (i.e. for creative pitches) would not serve as transference of copyright.


<sup>1</sup>Refer Glossary for clarification of credentials content.

<sup>2</sup>Refer 4.3 Best practices for the drafting of specifications/briefs for clarification of communication strategy.

<sup>3</sup>Refer Glossary for clarification of strategic proposals.

<sup>4</sup>Refer Glossary for clarification of creative strategy/creative pitches/creative concepts.

<sup>4</sup> Refer 4.3 Best practices for the drafting of specifications/briefs, for clarification of creative strategy.

- 
- 4.1.1.5 The most common current practice of appointing advertising, PR and marketing communication/branding agencies for a minimum period of two years for long-haul projects is endorsed. This would need to be considered on a case-by-case basis, in which the ability to satisfactorily deliver on the communication objective of the project would be taken into account in determining the appointment period. The incumbent agency could also be re-appointed during a re-pitch, provided the proposal submitted by the incumbent agency meets all specifications and is regarded as the best proposal among all other bids.
- 4.1.1.6 The prescripts of the SCM Policy make provision for selection based both on the quality of the services to be rendered and on the cost of the services to be provided. However, there are cases when Quality and Cost-Based Selection (QCBS) is not regarded as the most appropriate method of selection. For complex or highly specialised assignments, or those that call for communication/creative strategy development, selection based wholly on the quality of the proposal would be more appropriate. Thus, discretion should be used when effecting the percentage split between price and functionality, i.e. awarding more points for functionality than price to ensure that quality is also a determinant in the assessment of bid proposals of this nature. True value needs to be gauged by the potential power of the quality of the communication idea (via post-campaign analysis and/or campaign effectiveness measures). This is why it is critical that a relevant capacity-building programme for government communicators be put in place – see paragraph 4.1.1.7.
- 4.1.1.7 A formalised capacity-building programme for both government communicators and service-providers in the field of marketing, advertising and PR is recommended to ensure that the two sectors have a comprehensive understanding of each other's operations. This will improve government's capacity to make good bid evaluation decisions, and agencies' ability to submit high-quality proposals. The training programme would need to be sustained to cater for new entrants in both the public and private sectors. The following subjects could be covered in the training programme:
- best practice in developing government bids for advertising, PR and marketing communication
  - preparing the agency brief
  - how to complete bid documents
  - how to assess briefs and select an advertising or marketing/branding agency
  - understanding the creative process
  - the evaluation of strategic and creative submissions
  - how to get the best out of your advertising/PR/marketing/branding agency
  - transformation in the advertising, PR and marketing industry.
- The proposed briefings/training sessions can easily be arranged by the ACA in co-operation with GCIS. Appropriate government forums could also be used as platforms to deliver this training material.



#### 4.1.2. Competitive bidding procedure

The competitive bidding procedure applies when there are sufficient suppliers/service-providers in the market, and where there is a need to afford the opportunity to be considered to bid by to as many agencies as possible. This option is mandatory for projects with a budget exceeding R200 000 and requires thorough planning by the commissioning department. Competitive bids are posted on the departmental website and advertised in the *Government Tender Bulletin* on any Friday, over a minimum period of 21 days. In the bid advertisement, the pick-up address for bid documents, the briefing date, time and venue (where applicable) and the closing date, should, among other things, be indicated. The two-stage bidding processes must be instituted for competitive bids and prescribed in the bidding documents, namely:

- Stage one: a RFI or a request for a proposal (RFP), including the provision of the actual brief and the request for proposals/communication from interested parties within a reasonable time limit. This phase would include a pre-screening and shortlisting process. The brief would require bidders to submit the following information:
  - credentials (comprehensive company profile, ownership structure of the company, BEE profile, etc.)
  - account track record/expertise
  - infrastructure/capacity (location, operational strategy and methodology, resources, consultation, account planning and reporting capabilities)
  - profile and staff complement at senior, middle and lower level
  - transfer of skills to clients and HDIs (learnerships, internships, etc.)
  - empowerment of SMMEs throughout the supply chain
  - industry affiliations
  - proof of financial stability/liquidity.

During this phase, bidders are shortlisted based on an evaluation of their strategy proposals, modus operandi and credentials. It is recommended that a maximum of five companies be shortlisted.

- Stage two: A more concise formal brief may have to be developed/refined for the second phase (i.e in the case where a project may be of a confidential nature and the supplementary or second brief is to be exposed to only those agencies who have been shortlisted).
- This stage will culminate in a formal presentation of the communication strategy (and in exceptional cases a creative proposal) to an evaluation panel. During stage two, short-listed bidders are evaluated in relation to functionality (strategy presentation/ creative presentation) and price.

#### 4.1.3 Price quotation

This option allows for quick turn-around time, with three to seven days allocated for the submission of quotations. A minimum of three companies are selected from a database and briefed to submit a proposal on how the campaign can be executed to meet set objectives. Price quotations may, however, not exceed R200 000 and agencies have to complete relevant documents pertaining to the PPPFA, 2000 for all quotations exceeding R30 000.

#### 4.1.4 Limited bidding procedure: panels of advertising/PR agencies

In instances where the value of the campaign exceeds R200 000 and where departments find it impractical to invite competitive bids, they could opt to make use of the GCIS panels of advertising/PR agencies. These panels, which are ideally updated quarterly and reviewed annually, were established to fast-track procurement for campaigns with a budget estimate of more than R200 000. The panels consist of a list of agencies, appointed after a pre-screening process. A shortened bid period (14 days) linked to the panels may be requested from GCIS' Departmental Bid Adjudication Committee for campaigns that require a faster turn-around time. A two-stage pitch is usually followed:

- Stage one: shortlisting and briefing – All panel members are briefed and the best proposals are shortlisted, based on scores allocated with respect to strategy, modus operandi and functionality.
- Stage two: presentation pitch – A maximum of four shortlisted bidders present a strategy and proposed methodology (and in exceptional cases a creative proposal) for the campaign to the evaluation panel. In this instance, bidders are also evaluated in relation to financial aspects.

#### 4.2. Notes on pitching/bidding

An agency appointment can be made after completion of any of the following stages or through a combination of two, and in exceptional cases, even all three of these stages:

- full credentials presentation
- strategic presentation
- creative presentation.

**Please note:** Subjecting an agency to a three-stage pitch with a full creative presentation is expensive and time-consuming for both the agency and client. In addition, there is a danger of abuse of intellectual property rights in the use of creative presentations.

#### 4.3 Best practices for the drafting of specifications/briefs

4.3.1 Irrespective of the type of bid to be advertised – price quotation, competitive bid, limited bid or use of the panel – the brief issued by the client to proposed bidders remains the most critical document in the procurement process. It is therefore essential that every effort be taken to prepare the best possible briefing of what is required and to ensure that the specifications do not inhibit participation by SMME companies. It is also recommended that briefs for bids involving large budgets encourage the establishment of consortia, to ensure that small companies have an opportunity to participate in the bid.

4.3.2 For clarity of understanding, please take note of the following guidance on what is covered by a "strategy"/"communication strategy" and "creative strategy" or "creative concepts".

Where a brief calls for "strategy" or "communication strategy", the framework refers to the proposed process by which the advertising agency envisages that



the campaign may best be able to achieve the goals briefed and the action plans to achieve those goals and objectives. It is the distillation of the (client's) brief into what has to be achieved and how it will be achieved. The communication strategy must identify and validate the following through market insights:

- key messages
- positioning statement
- target audience
- objectives.

It must also provide an indication of the relevant channels and expected outcomes. Ideally it should contain a budget estimate.

A "creative strategy", by comparison, amounts to an outline of what message should be conveyed, to whom, the tone and manner to be used. This provides the guiding principles for copy writers and art directors who are assigned to develop the advertisement/campaign. Within the context of that assignment, any advertisement that is then created should conform to the creative strategy. The written statement of the creative strategy is often referred to as a "copy platform". "Creative concepts" are the visual execution/rendition of the creative strategy and it should therefore be appreciated that a call for creative concepts requires that the entire creative process is followed in order to be able to execute the concepts. While both phases of development incur enormous cost to the bidder and therefore a call for creative should only be made where absolutely necessary and ideally with the provision of a "fee for development" attached.

- 4.3.3 It is recommended that government departments should, as far as possible, specify accepted standards in their briefs.
- 4.3.4 Bid specifications/briefs should be developed in collaboration with departmental marketing/communication and SCM units, and must include, among other things, deliverables expected from bidders, the evaluation criteria that will apply, the weight and value that will be allocated for each criterion, as well as the constitution of the evaluation panel, e.g. representatives from GCIS, the client department, academic institutions, etc.
- 4.3.5 The inclusion of a campaign case study in the brief is recommended for generic bids that are not linked to specific campaigns, media bulk-buying bids or bulk distribution bids. This provides supplementary information about bidders that might otherwise not be gleaned from the general specifications. In some instances, bidders are also encouraged to provide their own case studies to demonstrate capability to execute the job at hand. This will afford the evaluation panel an opportunity to assess the bidder's level of competency and capability to execute the task.



- 4.3.6 A combination of a written brief followed by a verbal briefing session is regarded as the best approach.
- 4.3.7 It is of critical importance that the briefing document contains as much detail as possible to enable eligible companies to bid while enabling ineligible agencies to exclude themselves from the process. The following aspects should be incorporated in the brief (see Annexure II for an outline of a brief):
- Background to the campaign – provide a brief summary of the campaign, what it is, its benefits and features, an indication of what has led to the need for communication action, the background to the campaign, facts that locate it within broader and longer-term developments, etc.
  - Objectives of the campaign – specify the purpose of the campaign: what is it that you are aiming to achieve? Are you trying to inform, educate, generate enquiries, stimulate behavioural and attitudinal change, or is this a launch campaign where the prime objective is awareness of the product/service/government initiative?
  - Communication and competitive environment – be clear on how you want to differentiate your campaign and its competitive advantage from other competing campaigns and the way competitors promote themselves. Indicate the competitive strengths and weaknesses of your product/service, the campaigns that will be launched around the same time as your campaign, synergies that already exist and/or those that need to be forged.
  - Communication challenges – could be obstacles in the form of (i) existing perceptions that have to be changed through an awareness campaign; (ii) the challenge of activating the maximum support that is there but latent; (iii) a problem of insufficient resources; (iv) the challenge of reaching the various segments of the population; or (v) putting complex information into easily understood forms.
  - Target audience – try to be as precise as possible about the people whom you want to communicate with: Who is the target audience? What kind of people are they? Are they existing users of your product/service/initiative? If so, what are their attitudes to the product/service and your department?
  - Messages and themes/tone and feel – bidders need to understand how you want the campaign material to reflect the product/service, government, and/or your department's personality. What should be the tone of the campaign? Professional? Serious? Traditional? Fun? Caring? Understanding? Authoritative? Include any key messages or themes that could guide bidders in the development of strategies and proposals.



- Requirements – it is important to encourage SMME participation and the establishment of BEE consortia. This will contribute to the transformation of the industry. The use of local content with regard to resources required throughout the value chain should be included in the specifications where possible. Be specific about the requirements, e.g. develop and execute a comprehensive, integrated marketing communication strategy; develop branding, slogan, symbol(s) for the campaign; plan and implement an advertising campaign; plan and manage a PR campaign; and/or submit of complete, properly audited post-campaign/impact analysis reports.
- Competencies to be possessed by agencies – these could include resources/creativity/conceptualisation, understanding of government policy and objectives with regard to the project, event management, media planning/buying and/or placement, feature writing, relationship- building, project/campaign management.
- Timing – indicate when should the campaign be launched, and what is the duration of the campaign. An advisory on approval points and procedures and the time to be allowed for this is recommended to ensure the submission of a realistic roll-out plan by bidders.
- Nature of the budget – it is advisable to tell bidders that the budget is task-driven.
- Bid evaluation process and criteria – this information provides a guideline with respect to how bidders should structure their proposals, and indicates which areas will be evaluated. Evaluation criteria linked to the deliverables of the project should be developed, and weighted scores allocated for each criterion.
- Evaluation panel and procedures – indicate how the panel will be constituted, i.e. which institutions will be represented? Provide the date, time and venue of the bid briefing session, where applicable.
- Number of evaluation phases – identify all the phases, e.g. pre-selection, short-listing, strategy presentation, etc.
- Preferential procurement evaluation scores – indicate that bidding parties wishing to claim points in terms of preferential procurement evaluation points should complete the relevant bidding documents with respect to ownership by persons who had no franchise prior to the first national election, and preferential points for promotion of small businesses and other government goals.
- Enquiries – indicate whom to call for functionality-related queries and whom to contact for queries regarding bidding procedures.

#### 4.4 The evaluation panel

The committee should consist of panel members with the requisite expertise to evaluate the bid proposals. Apart from a representative from the supply chain unit, the committee should preferably include a line-function specialist, an advertising/PR/marketing/communication expert, as well as an external communication expert, e.g. from another government department and/or an academic institution. The committee should also be representative in terms of race and gender.

#### 4.5 Shortlisting of bids

Shortlists should ideally consist of more than one, and not more than four bidders, depending on the value of the campaign rather than the number of bid proposals received. This will prevent companies, especially small companies, from investing time and resources in a pitch that is unreasonably competitive.

#### 4.6 Pitch presentation

If the bid specifications provide for a presentation phase, shortlisted bidders should be notified timeously of the time, date and venue of the presentation, as well as time allocated for the presentation and questions. It is critical that equal time (e.g. 45 minutes for presentations and 15 minutes for questions) be allocated to all bidders to ensure fairness and transparency.

#### 4.7 Informing bidders of bid outcome

A bidding process must be completed within two months from the date on which the bid closed. Once the Bid Adjudication Committee has endorsed the recommendations of the evaluation panel, a contract should be concluded with the successful bidder as soon as possible. After conclusion of a contract with the successful bidder, other contending bidders should be notified immediately about the outcomes of the bidding process through the departmental website, tender bulletin or any media vehicle that was utilised to advertise the bid. A company wishing to ascertain the grounds on which its proposal was not selected should address a request in writing to the Accounting Officer of the department in line with the provisions of the Promotion of Access to Information Act, 2000. If the feedback is not satisfactory, the company may refer this matter to National Treasury, which is obliged to respond within a reasonable period of time and at no cost to the bidder, and/or to the Public Protector or a court of law.

#### 4.8 Cancellation of bids

As a preamble to the bid documents, potential bidders should be made aware of the risks involved when deciding to pitch for a bid. A point in case is when a bidding process is cancelled due to any of the following conditions: (i) lack of funds to finance the project; (ii) the problem that required a communication solution is no longer relevant; and (iii) none of the companies that submitted proposals managed to meet the prescribed qualification criteria. Should any of these conditions lead to the cancellation of a bidding process, agencies that have submitted proposals should be notified within 24 hours. In addition, the cancellation process must be approved by the Accounting Officer, and reasons for cancellation must be recorded for auditing purposes. This will ensure that agencies, especially small agencies, do not invest time and financial resources in a pitch that has been cancelled.





#### 4.9 Contract administration and management

A service level agreement/contract, with performance indicators based on the specifications of the bid, should be concluded with the successful bidder to facilitate contract management and performance monitoring. Such an agreement will quantify cost-benefits and mitigate risk to the State while protecting the agency from scope creep.

Deliverables should be monitored continuously to ensure that products/services are delivered in accordance with the conditions of the contract. The agency should submit performance reports, i.e. through a progress tracking report, to the client department on a monthly basis until the closure of the contract. The client department should address non-compliance with the agency verbally as well as in writing throughout the duration of the contract.

## **Annexure 6**

### **Interview Transcriptions**

## INTERVIEW WITH NANA NKOSI

I've got a couple of questions and it is really very, very broad. It is just to get your understanding from the supplier's side in your capacity of a mostly branding agency with regards to client retention.

Marí: Do you actually identify specific clients to retain or do you have a philosophy to serve all?

Nana: You know the business is small as HKLM are four and a half year old. The business has really been growing usually fast from where it was four years ago to now. When the business started it was our approach to try and retain all. It is still the philosophy and still the mindset of the business.

Every other client is as important as the other. Small paying clients, whose budgets are small, might spend a hundred thousand Rand with you this year, but it may grow the following year. Basically in branding it is very different from advertising as agencies are not actually retained in terms of a signed two-year contract.

In the advertising space clients sign contracts for say three years, paying a retainer, for example a hundred thousand rand every month for the next three years. As you know, that is like steady income to keep your staff and everything else and if you have five or ten of those retainer clients you know that your business is made.

A very different mindset applies from a branding point of view even though we are still trying to actually convince the clients that this should not be the case. As you know, you actually build a brand every day and also it relates very much to marketing in terms of what we do. We are thought to be very different, in terms of our thinking, from an advertising point of view because people think that we just do design.

This is not so, we are not different as we actually get in there with the client. I'll share with you how we actually retain our clients. Firstly, we ensure that we give them value add. We don't push paper, we are thinkers. The people who face clients, like I, obeys our own brand concept. The individuals that I bring to actually work directly with the client are people with experience; people who know how to service the clients; people who are very strategic. You need people.

Every person in the business need to be strategic, even a designer. Because the design, or the identity that you create for a brand, should not just be a logo because it just felt like it was just right because my mother just likes red. It needs to be very

aligned to the strategic direction that you have identified in line with the brand positioning because everything have to be in alignment.

Marí: How would you build that relationship and that sort of understanding of the business?

Nana: We build it from scratch. Yes, basically we have a process; I'm going to show you here in this book. I'll show you our process. When a client approaches us and say "I need an identity, I need to relook my brand", we don't get into a design without understanding the business. It will be very irresponsible if we do that. We need to understand, it is the very first phase, it is so critical and expensive phase, but it must be done. We need to know your business, in fact, by the time we finish with that brand, we sometimes even know more about the client's business than they do themselves. That is how much we get inside it.

Marí: That's wonderful.

Nana: From a strategic point of view, we believe that to develop a brand, everything actually should be aligned with a business strategy. To build a brand, you need a business strategy.

Marí: Uhm

Nana: You can't actually develop a brand without a vision. What is it that you actually want to do with the business? What is your vision, what is your mission? You know, and then we come in and get insight from the business. We interview the key executives of the business; we interview the staff, because culture is also very important.

Marí: Ok

Nana: In terms of the people who work for this business here. What do they think of this business? What do they think of the processes? Is it the right culture? Because culture influences service delivery and also if your staff don't know about your business, don't know what your business is about they actually can't deliver on the services of this business wholeheartedly.

I'll take a bank for instance and I'll take Standard Bank. *Simpler, Better, Faster* which was their payoff line, which is the brand promise they are making to their customers. It is actually so profound; it is such a deep statement that if you are telling the customer that this is what I am going to deliver to you, the customer. But if you go to Standard Bank and actually stand in a

queue for 20 minutes and actually get to the tellers and asks for specific things and the teller can't even help me with what I need, there is not a *Simpler, Better Faster* strategy, which mean, that the first person who actually needs to understand the business is the staff facing your customers.

The staff is very important so we talk to all the staff; staff form the bottom for example someone who makes tea, right to the CEO of the business, because let me tell you, the views are so varied.

Marí: You are so right.

Nana: We don't group them into different things because we've got a structure in the criteria. We don't put people's names to what this person says; we put the thinking and the opinions, the negatives and the positives, so we have a basis for strategic thinking. We would also pile through a whole lot of documents that the business has put together over the years. That defines the business that defines what you are about. If it tells us what products you sell, how do you sell them to the clients and we look at the business architecture and if there are other relations that actually relate other businesses within the business that relates to the brand. It's that whole understanding and once we've done the strategic thinking, we will look at the brand visually. What do you look like right now? So we can know exactly what doesn't work and what would be the recommendation.

Marí: That is wonderful, but don't you think that is a lot of input and possible cost for let's say a smaller client?

Nana: I will not do justice to the client without that being done because I'm not doing justice to that brand. And let me tell you, the client that actually moan and say it is too expensive are actually jumping the fence, because I know what I have to do to get results. Some clients would actually come and say: "I know what my identity needs to look like; I just need someone to do it for me." That is when I say, the bus needs to stop.

Marí: Even when it is a design company?

Nana: Yes, but we are strategic thinkers. We are a strategic branding agency. We form a partnership with the clients; we add value; we look at the business and we actually give you the insight based on the strategic insight that you got within your business. Then we form recommendations because we can't actually start by designing pretty logos. Then when we see the results; when

we get back to them, we actually find a different business. We do all the work in-house. There are three components to our process, which is strategy; we think strategically, we do not start by doing pretty pictures. Everything should be related, it needs to be aligned to the recommendations and to the brand position.

Mari: Lovely

Nana: The second component is the creative one consisting out of creative development and production. Thirdly we implement our recommendations. Whether we are implementing in people, whether in production or other processes, we always go back to the client to see if the implementation has worked and how it has worked.

Mari: This is wonderful

Nana: So this is basically what it is, and then we take these three categories, break them down to different phases. [Nana uses a company process diagram to illustrate the different phases]. In this phase here, we do a complete brand diagnostic [Nana referred to the insight phase].

So we go through this process where we do key brand interviews with the executives, with the staff and we probably need to do with customers as well. We do the visual audit to actually see what the brand looks like right now, on paper and on file, because what also the client doesn't understand are that the environment which you are in, your offices, influences the culture of the business.

Mari: Your stuff is so wonderful!

Nana: You know, if you have offices that look like a dump, do you really think that you can encourage and motivate your staff to actually deliver and actually be happy to deliver to your customers? I don't think so.

Mari: Lovely, this is lovely Nana.

Nana: The environment actually plays a huge role.

Mari: Absolutely

Nana: Because it influences culture here in the business. So we look at that and then we look at your competitors in terms of what your competition is doing. We look at your local competitors, we look

at international competitors, and we look at global trends. What is happening right now, how does the future look like, what is the landscape?

Mari: Wow, this is wonderful

Nana: And we take each one of those and we break them down into little pieces and then we do a visual audit which is just very much the interactive side. Once we've got all this insight, we've got rooms here, which we call think tanks. We dedicate one room for the client and we put all the stuff – everything, from strategy, to how it looks like, everything into that room. That room is like full of stuff and we start analyzing and break things down. We probably spend about three days doing that, doing just the analyzing. We probably spend a week in some cases.

We look at the advertising, we look at the consistency in terms of themes and if it is the same as how we position this brand. What is the essence of this brand, and is the advertising that you hear on radio and what you see on TV, reflecting what the values of this brand are, and what the essence of this brand is? So we do that and once we've done that then we make recommendations in terms of where the business needs to be.

Now let me just show you, I'm going to take Exxaro as a typical example. Exxaro is a mining company. Initially it was four companies namely; Kumba Resources, Eyesizwe, Ticor and Namakwa Sands that actually merged with different cultures, different people that really had to become one single company. So we did the entire visual audit. Everyone looks different, everyone acts very differently. But after we made recommendations we had to devise a complete strategy.

Then we get into the second phase, which is the creative context. During this phase, the client is actually starting to see, these people are adding value, they know what they are talking about.

Mari: It's wonderful

Nana: To actually build the relationship with the clients to keep them for years and years and years because they'll be coming back, because we don't have that three year retainer with the client, the agents is actually always guaranteed that: I have my hundred thousand every month, however bad I service this client. Our service is actually based on: I need to service my client so that, that relationship is built on many things but mainly and mostly its value adds. It's us here.

Marí: That's wonderful process.

Nana: And then clients keep coming back and say: I have another project. I mean, they can end up actually spending millions. To date, Exxaro which started as a very small project, has spend millions with us. Initially, the contract was one point six million Rand and the brief was very specific in terms of what the client wanted. We have been in this relationship with Exxaro now for two and a half to three years. We have billed to date twenty seven million Rand.

Marí: Now, that is a recommendation . . .

Nana: That's twenty seven million Rand, just from getting them to think. Also, what is very important from our side as well as that of our four directors, that actually are the founders of this business, they're business entrepreneurs, they're very entrepreneurial people and they're very client centric here.

The client is the king in this place. Not just the king because just enough fluff them. We believe that; you know what, we are actually in this environment because this client is keeping us in this environment, we have this business, because the client keeps us in this business, but to get clients in this business, we need to deliver more and more value to this client so they can start trusting us with their business.

There are certain clients that actually would not make business decisions before coming to us and asking us if it is the right decision that the business need to take. When the clients start coming to you about these very strategic decisions, about where the business need to go and the future of their own business, then you know, that you know what; I've done my share. I've delivered.

Marí: That is wonderful! How big is your customer base?

Nana: It is huge, hum, this is just a snapshot that of brands over here, I mean it's all those clients . . . (Nana showed me about 100 brands listed in "Thinkin?" a company publication.

Marí: That is quite a portfolio

Nana: Yeah, it is a lot more than this, a lot more, probably yeah, over a hundred. Other clients come in and work with us and then they go. We would love to keep them, but they don't have the budget to carry on. Other clients like, especially the big



corporates, they stay on with us, I mean Nedbank has been a client of us for years now, in fact since this business started.

Marí: Do you give those businesses special treatment?

Nana: You know, I've got people I allocate. We split this business into different teams, core teams from a brand consulting point of view. Then the client service team and hum, I've got a list of clients. I have a look at the whole list of clients that we have every six months, we know who is the key clients and we identify our key clients because you know what keeps your key client is different from a client who came in just to do one thing like a brochure because they just need a brochure and then be out of the door. Yes, but you would give the same service, you will actually give the same strategic thinking, we take them through the same process and we do this not because this clients spend money, OK.

We sit with the directors and look at key clients and we've got a different strategy in terms of what is additional value add that we need to do for this client to ensure that we stay on the map with them.

Marí: So you've got very close interaction then with the directors . . .

Nana: Our directors, the founders of this business, they interact with the clients as well. They give them phone calls; they go to status meetings with some of the brand consultants. If the client contacts them, they know what's happening.

Nana: Each director takes responsibility for some of the key clients.

Marí: hum

Nana: They are certain clients that I need to be looking after for example, as a client service director because we interact at different levels

Marí: Ok

Nana: My account director might have a relationship with a brand manager.

Marí: Ok

Nana: I probable interact at a Marketing Director level, or a MD level and our Directors interacts at a Chairman's level, so we split

ourselves. We know that if we want business here, those executives offers business and I have to build my relationship. I take it from here, and if it goes up to there and the next management level actually works directly with that person. This way, you know that you have all the levels of the client's business covered and the value is actually delivered at every single level of the client's business.

- Marí: That's very interesting, so that's . . .
- Nana: So that you know, that there are no gaps and there can't be any problems. If, if that account director who handles that certain piece of the business is not available, say he or she got sick, I can step in very, very quickly and just keep on going until that person is back. So that also adds on how we keep the client happy.
- Marí: How do you determine key customers, is that simply by spend, or is it by potential?
- Nana: Both, I think it is just spend and potential.
- Marí: And then you say you give different treatments and different calls and things based on your custom segments, so to call.
- Nana: Hum, hum, hum
- Marí: So how would you identify if one of those key customers was about to leave you?
- Nana: Was about to?
- Marí: Leave you, defect to someone else.
- Nana: Yes,
- Marí: Do you have, let us say warning signs in place to look out for that?
- Nana: You know the first sign that tells you that a client actually wants to walk out the door is just an attitude. You know they get reserved and they are starting asking for files, which normally sits with us. Normally the brand managers will bring this changing attitude of the client to our attention. That's when then they start bringing in the Directors.
- Marí: So that's the account manager, the brand manager?

Nana: Yes, they say I'm very, very concerned about this. This is how I'm feeling, ok. Hum, probably then I will have a look at it. And then probably we will give that marketing director a call, you know, I would not actually say at the beginning it is a very bad feeling, I'll just go and say are you still happy with everything, are there things you would like us to discuss?

Marí: Ok

Nana: That's, that's, you know that's probably some gaps that you feel are not filled properly or delivered properly from our side. Let's have a look, just talk, take him out for lunch, let's just talk.

Marí: So, then you bring in more senior people and you try and talk on that high level.

Nana: Absolutely and you talk on the high level.

Marí: Ok, well that makes a lot of sense, because there is a lot of professionalism at that level.

Nana: Because probably the account manager that serves an account may actually not know the deeper issues. But if I actually approached, from my side, the marketing director or the MD of the business these issues will actually come out. Then I know what I need to actually resolve if I know what the issue is.

Marí: Of course. What happens if that brand account manager didn't pick things up and you simply don't hear again from that customer? Do you go back to them?

Nana: We phone them. We make a phone call. I would make that phone call or one of the directors would make that phone call.

Marí: And how often would you do that?

Nana: Rarely, it's just so rare.

Marí: Is it?

Nana: Hardly, we don't.

Marí: You're very lucky.

Nana: We're very, very lucky.

Marí: Your process is brilliant

Nana: We really are extremely lucky that we actually have never ever had to do that.

Marí: That is actually a wonderful accomplishment that you don't see often. Well done! Hum, why do you think customers stay?

Nana: We are very positive about every single product. We don't feel that ah, we have to do this because it is a job.

Marí: How do you do that? How do you get your people . . . get them excited?

Nana: You know why, because we've got the right culture and the right mix of people.

Marí: So your agency is culture and people driven?

Nana: It actually stems just from the roots, from the company, our company itself, HKLM. That is our culture. We are very customer centric, in fact, this business is actually drawn ourselves what we call hum, brand, hum brand blueprint in terms of the kind of people . . .

Marí: That's Shaun's (one of the directors) work

Nana: Yes, what kind of people does this business . . . what kind of people needs to work in this business? What kind of experience? How do we define us . . . what is our four key values of this business? What are our assets, what drives us?

Marí: Nana, you know what, there's a book, Be Our Guest, and it's published by Disney Institute. You should read it, because you could have written it.

Marí: You should actually read it. It is a wonderful book about the customer service elements in Disney World.

Nana: Hum,

Marí: One of the discussions is based on setting. Everything about the setting, every single thing from the dirty dustbin to . . . and then people, people are so important to them and then in the process and everything I see here, just confirm what they do.

Nana: Exactly, you know the extra thing that we do here is that you know, we . . . what we define, what we show to our customers in terms of building their brand. How do you build a brand? We apply to ourselves. We've got our own book.

Marí: That is wonderful

Nana: In terms of what is HKLM about? What does our competitor landscape looks like? What is it that makes us different, from our competitors? We've applied what we sell to our customers, is what we've applied internally. Hence the reason we don't let a customer who walk through the door and say all I need is just a brochure. And customers who come in the next day and say I want a huge identity and the budget is R7.5 million. These customers are no different.

Marí: That is wonderful, that is . . .

Nana: Why, because of the attitude that we actually have from this business within and the people that we employ within this business. We're all very, very prudent people. And we all believe that the customer is actually very important and what we give to the customer need to be the best.

Marí: This is wonderful. I want to show you this model, and I want to get your comments on it. Now, bear in mind that this is from a customer's perspective. Hum, and what I've done, I went into the psychology a bit and I went into relationship marketing a bit, and I went into economics a bit and I came up with key drivers and I'll explain that to you. This is where the customer is right now. The customer has to decide do I keep them, or do I lose them. And I am saying that there are three components that the customer would consider. It may be on paper, or it may be intuitively and this is really what I want to test with you. Because what we find in terms of academic studies is that discussions about retention is mostly fragmented and that there's nothing that keeps everything together. I always look at the research and I am very critical about research, because I say if you don't look at everything, there is something that may just drive a decision that you didn't consider.

Nana: True, which is why we go to the insight phase and we actually tie every single person involved with the brand.

Marí: Absolutely

Nana: If you don't talk to this people, you are losing the biggest insight ever that will drive what the business achieves next.

Marí: Absolutely. And so, yeah, your insight is very much part of the relationship you have. I'm saying that there are three groups

that will affect a decision, ok. The first one is really the market conditions. I'm going to talk about that just now. The interesting thing about the market conditions, this is still not being highlighted in academia and we still don't measure that, and sometimes we lose customers or we lose suppliers because of that, ok. The major driver is the actual service you deliver and then it is the relationship. Of these, two are well defined and well measured and we're going to look at that just now, ok. Rules and norms of exchange that I am looking at is equity, now this equity simply refers to previous dealings with your company. Was it a fair exchange? I gave you money, you gave me your services, was that fair. Sometimes we tend to forget about those previous experiences and the thoughts that it may leave in the minds of customers.

Nana: Sorry, there is something else which I left out as well, which is a very good service thing which actually add meaning to our process, which is not in here, but it's just a known thing. When you finish, because you learn every day something different, and you learn different things, different projects. We might be building brands, in the sense of building brands. What if your experience with this client is a little bit different? There might be hiccups that you learn, things that you learn from one project that you can, once you learn that, you need to make sure that you apply things properly and you share learning with other people in the business so what we do is what we call a post-mortem, on every project. We do an entire post-mortem. The project team sits together and discover what we have learned.

Marí: Wonderful

Nana: We need each person in this room who worked on this project to actually give as the learning. What did you learn in this project, what were the hiccups and what could you have done differently? And it's real things.

Marí: Do you put it in the case studies?

Nana: No, we don't. It is an internal thing; we don't put it in the case studies. We get everyone to identify this first and foremost internally. Then we sit with the client, second meeting, and we post-mortem with the client. The client must actually give us their learning, what they believe we could actually do better, which we didn't do right, because there are different expectations from different clients and they are all very important. Feedback are then given to the client and we say, Mr. Client, on our side, we believe these were the learnings both in terms of the good

and bad and feedback about the hiccups how we could have done better.

Marí: That's wonderful.

Nana: So we post-mortem projects.

Marí: That is wonderful  
Nana: And you take those learnings and put them in the document and you share with the business.

Marí: That is wonderful. And the case studies; when do you actually draw these up, after each . . .

Nana: After each project.

Marí: And you do case studies per project?

Nana: Per project.

Marí: Researcher explained the remainder of the heuristic model

Nana: Agrees with the model and clarify some of the variables. This will absolutely, absolutely add value to us!

Marí: Is there anything else that you can think that I may not have put in there, that you think would be important?

Nana: No, I'm happy with that. I'm going to, let me make a note so that I could think of, I need to have it in my head, so if there is anything I need to just e-mail to you that comes into my head,

Marí: That would be fantastic

Nana: I will do that.

## INTERVIEW WITH GORDON PATERSON

Gordon: It is interesting because in the old days you would find that the longer you have a client, the more stable the client would be and the more secure the relationship. That's not true anymore.

Marí: I agree.

Gordon: You find that the longer your relationship that you have with a client, the more vulnerable you become, because with staff turnover being at such a level in our country at the moment, on the client side more so.

Every new change of guard wants to change the environment, they want new people on board and therefore enduring relationships are often sacrificed in the effort to show change.

A typical marketing person on this of our clients last about fifteen months.

Marí: Really?

Gordon: That's it.

Marí: Yeah, and then they move on.

Gordon: And then they move on and the more senior the person moving on, the more changes the new person who comes in, because no one wants to work with the partners of the previous Marketing Director, they want their own.

Marí: They want their own new relationships. So how do you deal with it from your agency's perspective? How do you identify key customers, identify those you want to retain?

Gordon: I could write a thesis.

[Laughing]

Gordon: You are. A couple of things, first of all it comes down to identify a few key customers, and identifying key customers comes from . . . well, you can identify key customers if you know what the criteria for key customers are.

If I look selfishly, from a Starcom brand perspective, a key customer for me is somebody who allows me to demonstrate our own unique skills, which in turn attracts new customers. In other words, I'm using my clients to promote myself.

Marí: Ok.

Gordon: Ok, they may not always be the biggest billing clients, and that's the difference.

On the other perspective, from a pure billing point of view, key customers are easy to identify. They're either defined by billing, they



bill a lot of money, or they're highly profitable.

Mari: Ok.

Gordon: Because you also don't find correlation between billing and profit, so it's difficult. We also identify clients that are potentially profitable, or more profitable, irrespective of their billing, they become key clients.

We also factor in what is happening in society at the moment and which clients next year, could be important to us.

Many years ago the marketing and advertising industry put a task team together and we were asked to determine the sort of ceiling in terms of our cellular phone handsets and we collectively, about forty people in the industry, from all walks of life, concluded that we are looking at about two hundred and fifty five thousand units.

Mari: Auw.

Gordon: We are now sitting at thirteen million units, so things change, the cellular industry has a licence to print money. What's the next industry which will be given the same opportunity? We've seen dramatic growth in new car sales, suddenly, as we go into 2008, we know that new car sales are shrinking by the minute back down to a core group of people who can honestly afford them and that has been driven by the declining economy but also tightening regulations on credit. So we need to be one step ahead of the game in defining customers.

What is consistent across all customers is the desire to be treated as an individual, a desire to have work produced and delivered on time, a desire for the work to make them look like the hero at all times and to do it affordably. Finally to deliver the sales or whatever the benefit is. Those are kind of the criteria.

What complicated, what was a very simple relationship has been the slow oozing of the procurement people into the decision-making process and procurement people have a different measure of success.

Mari: Uh huh

Gordon: Marketing people were very easy to work with. They wanted a good product that they believe in because their results were going to be the basis of their bonuses and their remuneration. Their future career prospects were determined by the success of the brand. And they realise you need, you needed a partner, a media partner or an agency partner with talent, ability, and a capability to produce good people in their organisations. So you weren't too reliant on one person and they wanted this at a fair price. Procurement, their measure of success is how well they reduce the costs. The output is somebody else's problem.

Mari: Uhm

Gordon: And for that reason we are seeing a widening gap between procurement and marketing, which is unfortunate. My own belief and perhaps I'm digressing here, is that procurement should not drive supplier selection. Procurement should follow supplier selection with a marketing team; say "we appoint you, congratulations you right for it. Now go and talk to procurement". They don't do that so it's how guys screw the agency into the corner and make them work unprofitable. So you have an agency being selected by procurement and marketing people, but the ultimate negotiation rests with procurement, so you have a great agency that's got all the capability that's pushed into a corner and has to trim away all of the essence that gives them their competitive advantage to arrive at what in essence is a parity product.

Marí: That is a very interesting comment. I've got a special section just dealing with procurement. It seems that only a selective few people are starting to show fingers at procurement, saying, "No, this shouldn't be" and this is the cost factor. But we'll get to that.

Gordon: They look at the saving factor of procurement, they don't look at the cost factor, and because procurement can derail the marketing efforts by saving you 5% or 2% on input you sacrifice a 100% of the result.

Marí: Hum, yeah that's true.

Gordon: Procurement has this mindset that their job is to turn the supplier into a victim and you don't build partnerships when you've got a victim in a relationship – you don't. You eventually force that person to be dishonest or perhaps not dishonest, maybe not to tell the whole truth. Where people say: "they don't ask, I don't tell"

Marí: Hum

Gordon: So and that's wrong

Marí: That is very interesting

Gordon: Ok.

Marí: So, ok, you've got these customers that you identify as key customers basically based on revenue and potential and possibly failure. Hum, who identify that customer, who in your agency is responsible for doing that and is it a strategic decision or is it an individual decision?

Gordon: It's a strategic decision; eh the first level of identification takes place by the person within that discipline. So from a financial point of view, it's very easy for a financial director to say "these are the largest numbers and they are the clients." It is not difficult. But it's the interpretation of the numbers to see where the potential is going.

I just read this about ten minutes ago that in France the new president of France is about to implement a complete ban on all television advertising on the state channels.

Marí: Shu

Gordon: Now, state television requires money to run what he is proposing to do is to levy a tax on all the commercial stations which continue to fund the state broadcaster, so the larger you are, the more you pay.

Marí: Shu

Gordon: There we go. Now that has dramatic impact even here in the southern tip of Africa.

Marí: I can see that we can possibly do that

Gordon: That's happened, you know we already in this country have a situation where the license money which South Africans pay towards the TV, or to get a television is not evenly disbursed. In fact it's not disbursed. It goes to SABC 100%. Ok, in addition to the advertising revenue that they get. E-TV, M-Net, etc. gets nothing from the license fee. Ok. Anyway. So, back to your question: who decides? It is a strategic decision by the board which we determine, the direction of the agency and which of those clients offer them the right mix. Certain advertising agencies like TVW Hunt Lucaris have for many years, probably 10 or 15 years selected only those clients that offer them an opportunity to demonstrate their personality and in so doing attract more clients. And they charge top prices so all their clients are profitable.

At Starcom, we have a slightly different approach where we'll take on a client and we'll commit 100% to that client, even if that client is not profitable or currently highly profitable to us. If it breaks even, I'm happy. If that client potential is there, if it allows us to do great work in an area that we have great skills, but perhaps no client. If you don't exercise skill, no one can see it.

Marí: Yeah, so that is basically the reputation. And then, how do you measure customer defection? If clients leave, what do you do? How do you see it, is there alarm bells going of somewhere?

Gordon: Yeah, alarm bells are the first signs of client unhappiness, and there are many reasons why clients are unhappy and why clients defect. Let's start with the obvious ones which is poor service.

You find that the first sign would be more specialisation in their supply network. You will find that they will say: "well, you do this, but we need these people to handle that". And they already started to spread their risk. So that is one of the signs. You find that the client wants to become more reliant on written communication so that there is a track record and somehow you are held accountable and that they are held accountable as well. It works both ways.

If I don't trust a client, everything is put down in writing, everything. The third point is that you find the client will start making contact further up the hierarchy. The fourth point is that the client will suddenly become unavailable where senior people suddenly you can no longer meet with, they un-client completely. And from our point of view, the final step is they start dealing with media owners

directly and next thing you know is they are gone.

So there are very clear signs that come through from our side when we are not happy with a client, we find that they are reluctant to listen to our recommendations, we start finding that people are unavailable, we find that they start paying a lot later, they add more and more queries and problems with the accounts to the point where you got to go through with them and physically get somebody to sign receipt of the information you are giving them otherwise they say: "no, no, I never got it, never got it".

Mari: And interventions from your side if these signs start occurring?

Gordon: It depends on the client, quite frankly. We have certain clients where my biggest, my first concern is to determine the level of exposure that we have from that client. What is the risk, because we commit on their behalf to media exposure and if for whatever reason they leave or we say we can't work with them, we still have to pay the media owners and there will be a period of time during which we become a bank. And my margins are not such that we can afford to be a bank for very long. We'll start losing the business.

I would try and get hold of the client directly. However, clients you get two types, you get the sort of clients who will pick up the phone and warn you: say "listen, I am not happy" and they're the ones that is easy to deal with. The ones that suddenly disappear they don't want a confrontation they think that by ignoring you they will be able to set up a relationship somewhere else.

Mari: From your perspective, what do you think would be the key drivers of retaining clients? What is it that they are looking for within your agency?

Gordon: Contact. More and more contact. With regular contact you can pick up on things a lot easier. With contact there is interaction. That is the secret some people call it client service, but it is not just about client service, it is being pro-active, picking up on something and sending it through and having that two-way communication with the client. That's crucial.

Mari: That's interesting. The studies that have been done in New Zealand and I think there was another one that I have done in part of America concluded that 80% of the reasons why customers leave is actually just communication.

Gordon: Communication is crucial and it's not just written communication, it is communication on all levels.

Mari: Gordon, what to show you an academic model which depicts the consideration set of an advertiser when a contract is reviewed.

Gordon: So this is almost like a flow?

Mari: This is just a picture that will show the flow and this is from the client's perspective, so typically this is where the client is. He is in a current relationship at the moment and he needs to decide if he will continue or not continue. What I've done is I actually went into

psychology and I went back into the economics. I've realised what is lacking is a comprehensive overview of the drivers of this decision. A lot of studies were done to explain the drivers of retentions but these studies mostly considered drivers in isolation. You find the role of trust and customer retention, or the role of service output, or the role of whatever one of these. I've tried to combine them into three categories. Two of them are quite obvious and that is part of your service and the other one is the relationship, but the other one is not always that obvious and that's the rules and norms, almost the market conditions that are driving some of the decisions. What I ultimately want to do, is to get your input in this and see if you agree with me that this should cover it and then I'm going to test it with advertisers and ask them how important these elements are and then look at acceptance.

Marí: So yeah, rules and norms of exchange are basically about equity and that's really how satisfied was I with past dealings with your agency and was it a fair exchange considering my money for your services.

Gordon: Just on that, what's really important increasingly is agencies, like many other service providers, are worthless without the personalities but the people themselves move rapidly in business movements and we are going to see more of that.

Marí: I believe that, it seems as if staff turnover and BEE pose to be the major challenges of the industry.

Gordon: BEE is becoming less important. We've gone through a horrific racist period which resulted in a lot of hard work to transform our industry, which is been slow. We have people in our industry at senior level who do not justify lower to middle management positions. And that cripples an industry like ours, a profession like ours, because leadership should be achieved through combat, through delivery, through learning, through the rigor of capitalism and advertising and marketing is at the cutting edge of capitalism.

Marí: Yeah, but then there is the pressure of legislation.

Gordon: Absolutely and I've seen so many young talented people who, through relationships, acquire ownership, but ownership and leadership are fundamentally different. The fact that you can buy an aeroplane doesn't mean you can fly it.

Marí: True

Gordon: And that is where we are at the moment, we have a lot of pilots who pull up in their black X5's, climb into the cockpit of an aeroplane with 120 people on board, they take off but they don't have a clue what they are doing. A leadership position is the result of experience and without that experience, you are deemed to fail. It is not just failure for yourself, but it is catastrophic failure for the company and loss of reputation.

Marí: Now tell me, if we look at the equity ownerships and staffing and so forth, and I mean obviously the scorecard that was designed that time by Mpho. There is the value statement and values and other

guidelines that was agreed to by the industry. How does the industry deals with . . .

Gordon: Enrichment is growing.

Marí: Yeah

Gordon: Enrichment is growing, but transformation has not taken place. Our industry has not moved forward since 1994/95 in terms of transformation. We do not, for example in my industry and the media industry we still today, twelve years on, thirteen years on we still do not have one black managing director or even media director of any media independent here in South Africa, not one. Now why is that? Two reasons; garbage in, garbage out.

We've got people on boards who are not suitably skilled to handle the rigor of being in media so we brought them in, we molycoddled them to a point where they felt that they had ability. They then went out and realised clients don't care what colour your skin is, they want performance. If you can't perform, you're dead, and then they leave and two years after joining the industry or three years, they leave the industry and they join a media outlet. They join SABC and they disappear into a unionised environment where they can become part of the new elite, without having to deliver.

The transformation that's taking place has not come with a willingness to take responsibility and accountability for their own performance. We have people coming from the advertising schools who frankly, I don't know how they got through their matrics, but we as an industry have been bullied in the past into a false sense of responsibility to employ those people and they're rubbish. Garbage in, garbage out. Their parents have been deceived by the training institutions whose objective, despite the fact that they're funded by the industry, the AAA for example are funded by the ACA, the objective of the AAA is profit, not product. That implies that they'll trick anyone, take the money from them and throw them out into the industry.

I've had far better results by going to University of Johannesburg and get young people straight out of BSc degrees and am not interested in marketing degrees because I find too many wishy washy people there who don't have a sort of hard determination of the people in sciences. These people tend to be unemployable because you finish your BSc in maths, and physics, what are you going to do? You're not a mechanic, you cannot fix a motor car, you're not in finance, and you're not in HR, you're not a management person, what are you?

They've got a hard determination in the end, they understand that the answer is 3.1, they're either right or wrong depending if they've got 3.1 or not. Whereas in a lot of the other courses it is how well you put your point forward, it's bullshit.

In our industry we don't have room for bullshit, we're audited weekly. You either deliver the exposure or you don't. You fail, you either negotiate the discounts and you can audit them, or you didn't, and spin, as I call it, which is a highly popular pastime by the

new elite. It doesn't gain traction in the media.

Marí: Interesting

Gordon: Well if you don't, you die. So I mean, I look at my clients and increasingly they say, you know what Gordon, you've got 51% ownership in your company, ah good luck. Well we want the best people working in our business and we don't care about colour. We're not racist. We don't care, we want the goods and we're not prepared to pay for training. So don't put a trainee in our business. Put somebody skilled whose capable and I don't care if they got three legs, or, I don't care or if they're black white green male female, I don't care. Now for me, as an industry we need to be more honest about transformation and that will only come from being more discerning about the people who come into it.

When I got into the advertising industry, it was a privilege to be here. You were part of an elite group of people, you were part of like a cocked gun group of people and you have tried, you knew that your tenure in the business was only determined by how hard you worked and how smart your thinking was. And you worked every other hour God gave you; you pretended you didn't work very hard so you played hard. So everyone thought you had a great time, but in reality you were working damn hard and it became a lifestyle.

We then became overly desperate to bring aboard young people, young black and coloured people and it became an industry for if you don't know what to do, and you get into advertising. Anyone can get into advertising now.

Marí: So maybe we should introduce a BSc or MSc in advertising?

Gordon: And the scary thing is you pay peanuts for somebody coming out of the university with a BSc in maths and physics whereas you pay an arm and a leg for some little princess who's got a 2-series BMW white wall tires works between 9 and half past twelve, comes back at half past two and leaves at three.

Marí: Yeah

Gordon: You pay a fortune and there is no commitment. Ok, and for me, one of my areas of transformation in our industry is males. If I have a female and a male with similar qualifications, I'll employ the male. We have an over population of women in our advertising industry and that's wrong, we need more men. Not only does it stabilize our business at a middle to senior management level, men and women are different and the differences give a company strength.

Marí: Hum

Gordon: And priorities change people's lives. I am tired of people getting to thirty five years of age and say, I want children and I want to pursue an academic career going forward and then you lose them. I'm tired of it. Guys have fewer choices than women largely, and when a guy reaches thirty five, forty years of age he's got a wife, two kids, you know what, he's not going anywhere. He is economically

trapped.

Marí: Absolutely. No you're right; I won't even disagree with you there.

Gordon: And you know I have it with my ladies here. I've got 99% of the staff are women and or maybe not 99%, but 90% and they're wonderful people, but I know from a reality point of view that very, very few of them are going to stand the test of time. I also know that they want doors to be opened, chairs to be pulled out and at the same time they want to be treated as equals and when I call in one of my guys, I will tell them they're doing a bad job, they take it like a man and they say, you're right, I don't have to tiptoe around people.

Marí: It's an open field these days.

Gordon: It's like, you know what, and it no longer gives you a competitive advantage quite frankly. Not with legitimate marketing companies, it just doesn't.

Marí: The other component here . . .

Gordon: Sorry, one thing that's important to BEE, is lobbying and black network which is important, more so than the composition, the composition is who do you have and how do they network?

Marí: Hum, that seems to become a very . . .

Gordon: Crucial

Marí: Yeah, it is

Gordon: Crucial

Marí: If you're not part of the network theory, you're out.

Gordon: You're out.

Marí: Ok, so there's a dependency element which is the result of...

Gordon: Sorry there's another point which you haven't got here. I don't know how to term it. This isn't a one-dimensional, linear thing . . .

Marí: No, it's not . . .

Gordon: It's three-dimensional because there is an understanding that relationships from a distance always appear better and when people are get close to making a decision, there's an incremental increase in fear that they maybe need to get close and, you know – better the devil you know, than the one you don't.

Marí: Yes.

Gordon: And that becomes a very strong influence not to make any change

Marí: Yeah. That I've got, I'll show you now on the questionnaire, but I've got that one out of a couple of interviews and learnings. The next section is about the relationship and that really boils down to the



commitment part . . .

- Gordon: What about the uniqueness of the service that you fee? Some agencies and some, I guess I'll call them service providers, may have a unique area of expertise that no-one else has got. So it's not about the service output or because you've got quality or performance but rather because of the uniqueness of that. Can they get that performance somewhere else? What is it unique? You find that in a company, even a specialist company like ourselves, we would have one or two disciplines within our company that are for a variety of reasons more attractive to one advertiser than another. And they'll want this, but they say, you know, we really don't want your research component, but your international connections are really important to us. And they give us a USP. So it's determining the value of your USP's that's quite important.
- Marí: That is a very good input. Thank you so much. Commitment? I want to be there, I like there? Calculating the cost, the cost of leaving, I'm staying. Trust, are they honest and then . . .
- Gordon: No-one is honest.
- Marí: That's true . . .
- Gordon: No-one is honest. It's the level of honesty or the level of comfort. More than anything. Honesty is such a naïve concept. Clients you can't trust, I mean you start of the relationship and the client build trust. You build understanding of how the other company's business model work and you decide if you're comfortable with that model or not, and what the compromises are. Trust is something, and honesty is something which is one of those trends that everyone talks about, but it's very rare that you get both parties in a contract that is trustworthy. It's very, very rare.
- Marí: It's almost like my loyalty concept.
- Gordon: Well, what's your loyalty concept?
- Marí: There's no loyalty.
- Gordon: There's no loyalty.
- Marí: There's retention but there is no loyalty. I like your level of trust or level of comfort. Ok then, back to the model ...the combination of all these variables informs the basis of the retention.
- Gordon: What about stimulation? Because stimulation allows for people to be retained. A company can have a good relationship with a client but if the relationship is not stimulating from an employee point of view, you get staff turnover. In certain businesses there is no stimulation whatsoever and you find that you cannot keep good people on accounts that are boring, abusive or repetitive. You cannot keep people like that. It's their career that entrepreneurial sharp minded strategic people and you're giving them government business, they want one thing and they buy something else. So it's, I mean and that's an increasingly common reality in business today. Clients want something and you give it to them and they don't buy

it.

Marí: Yeah, so they yeah, hum sort of . . .

Gordon: They know what to ask for, but they don't know it when they see it.

Marí: They don't know the answer.

Gordon: And increasingly clients are risk adverse. They do not, they won't be the hero at all times, they build their CV's more so than they build brands.

Marí: Yeah, because they change positions so rapidly?

Gordon: . . . so rapidly. You don't join a company to grow with the company. You join a company to use that company to grow you as a brand. The tables are turned.

Marí: That is true, now let's move on the questionnaire? Do you think something like this will give a few answers?

Gordon: I think it is quite comprehensive and clearly it's a final destination and at least people will understand as you go through it. I do, I think you could get further input from a company called Yardstick, a guy called Robin Mailer who maybe able to assist you or otherwise Alan Bolman from Apprais. I'll give you a telephone number at the end.

Marí: Fantastic.

Gordon: Because they facilitate a lot of new business ventures on and try to understand what clients are looking for and what are they experiencing currently and why they are not satisfied with the service.

Marí: That'll be wonderful

Marí: That would be very interesting. Do you think there's anything else that should be in there that you don't see? It is three-dimensional. I think this is the easiest way to show it on page. This is obviously this document behind it . . .

Gordon: Everything is interacting

Marí: Everything is interrelated. There is no doubt about that so

Gordon: Yeah, and you got personalities and reputation . . .

Marí: I've got all of those things in here. I will also establish specifically who's involved in the procurement process, how they get information . . .

Gordon: You'll see when the results come through on this question that the procurement people have egos second to none. They are the decision makers but they don't understand quite always what the supplier really does. There is a lack of understanding of the skill and I mean I that go to the heart of why the current procurement role is

flawed to come after the decision has taken place.

Marí: Hum

Gordon: I will also simplify the questionnaire as it is so important that people still stay fresh.

Marí: Makes sense.

Gordon: Something that's very, I mean it's very important is the layout.

Marí: I agree, but remember that this will be an electronic survey using quite a different format.

Gordon: Also it may be useful to have an even number of options because otherwise you may find average scores throughout. You've got five there so you're going to get lots of three's.

Marí: That is a very good idea. That's an excellent idea.

Gordon: All research results that I've seen on surveys if you give people options 1 – 5 you get a disproportionate high number of people that say three.

Marí: Hum

Gordon: So to give it four

Marí: Make sense . . .

Gordon: Four options; one, two, three or four you don't have the same thing that people sit on the fence. Because there is a strong affinity to sit on the fence.

Gordon: And then you don't get anything. You want to polarise opinion . . .

Marí: You are giving me such good input here I'm so glad I'm here.

Gordon: Well Bernie keeps saying to me; you really should think about doing an MSc and I say I don't have one degree, I don't need one.

I was invited last year and it's the final acknowledgement you can get in the advertising industry is to be invited to the Cannes-advertising awards as a judge. It only happens one in your lifetime. And there are sixty eight countries from around the world and each country is required or invited to send CV's for six people to the Cannes council. They then select twenty five countries and they select three names from each country and each one of those individuals has to go put a one-page CV together they then Google the person, they check out what you've written, they do an analysis. Last year I was one of the twenty five in the world invited and as I say you're lucky you get that at the end of your career. It's like ok you been there now, whatever.

But I've learned that the most stimulating form of learning is living and the biggest skill that a person can add is to see what you just

look and . . .

Marí: Yeah, that's true . . .

Gordon: Back to the questionnaire, I would also breaks up the type of, the style of question. They style of the questions are all the same.

Marí: Hum, that is a very good idea.

Gordon: Would you then . . . maybe something to look at. I mean obviously from each one of these you want to have a scale. I mean something which I become quite passionate about are spider graphs where you get all the criteria and obviously you go back; this is what you need kind of thing and this is the best footprint for an agency that's doing well kind of thing and then you go back and you look at the accounts that have moved recently and you do the same.

Marí: I can very well do that . . .

Gordon: It's just a thought. And I mean, what is nice you could actually have a thermometer at the end of it. We actually do an audit on a piece of business or you have the person's client and you give each client one, two whatever and you can say here is the clients that we believe are risky. Now you'll also find that the formula for success would be different by industry so you can say that is the formula for success or stability in the FMCG market, that's . . .

I mean a very interesting one would be to look at the cellular phone companies because they move dramatically in the last five years, ten years. The cellular phone companies moves from one agency to other agencies and the problem is not with the agencies, the problem follows them and you know who it is? They are the problem. MTN abusive, rude, no respect and they keep moving from agency to agency looking and each agency listens to what they're looking for and says we're it, they take the money and immediately the relationship starts deteriorating because no one's fixed the problem. The problem is the client.

Because we always believe that the customer is always right and I look at my clients and when they talk to me and they say Gordon I need this, I listen to what they say and I give them what they need which is not always what they ask for.

Gordon: I don't know if I was able to help you.

Marí: Gordon, you have been a tremendous help. My head is now so full of ideas that I'm not going to sleep this weekend.

Gordon: Good. That's good.

Gordon: It's been a fantastic conversation I must say, I really enjoyed it.

Marí: So did I and

## INTERVIEW WITH TRACEY ROBERTS

- Marí: Quickly let me give you some background. I am looking at customer retention, but I'm looking at it from an advertiser's perspective. I am specifically interested in the relationship between the advertiser and the agency,
- Tracey: Ok
- Marí: The reason being, I think that most of your clients are fairly large accounts. The contracts that they sign with you are, I assume, mostly substantial and I would therefore suspect that you would like to retain these clients in most instances. So my research is really based on what drives this client retention on the one end. I am also trying to establish what drives client's selection and agency selection.
- So the reason for us then speaking today is, I've reviewed the literature; I came up with a questionnaire; I came up with a proposed model that could possibly explain this relationship. I would now very much like to share this with you and want to get some insight from the agency's perspective.
- Tracey: Ok
- Marí: I gained some insight from a media and branding perspective but am also interested in the views from a more traditional advertising agency.
- Tracey: Well for advertising agencies the budgets are getting tighter and tighter and so it then becomes more difficult. There are many agencies out there and the type of service offered by them has changed altogether. In the past we had a clear distinction between above the line versus below the line. Today this has become such a difficult line because many agencies are now claiming to be integrated agencies so they'll do anything for you. I mean, you got your branding agencies, for instance like your HKLM's who have now opened advertising arms, so this whole integration thing makes agency classification a little bit blurred.
- Marí: I looked at the different classifications of agencies and I was astounded at how the number that just sort of took off.
- Tracey: Yeah, because I think, I don't know if that's anything new, but I think for the clients with smaller budgets, there is a perception that big agencies got bigger clients and bigger contracts. Yes we do, but we have also got a whole lot of smaller clients.
- Marí: Hum
- Tracey: I think you need to adapt according to what the clients' needs are and according to what the agencies' needs are.
- Marí: Yeah
- Tracey: I think the challenge for bigger agencies is how you become more adaptable towards the clients or requirements, rather than saying;

well these are our systems and processes and this is how we work.

Marí: Yeah . . . [mixed conversation] . . .

Tracey: Absolutely and I think the smaller agencies, because they are smaller are more agile. Smaller agencies can't lay claim to the world wide networks, or, you know, fewer of them can lay claims on the international networks in terms of information gathering, in terms of research, in terms of what are the latest trends out there. But put a brief in front them and they make it work, they are more agile. I mean they genuinely are more agile because they are smaller.

Marí: So you therefore take on smaller clients but how do you determine which clients have the potential to grow and which clients to nurture because you cannot afford to lose them?

Tracey: Ah, you know, I think it is a difficult one actually. I think you will get a different reaction from a lot of disciplines and then there is the agency. I mean there are some clients that we look at, saying look who you were when you came to us and look who you are now and we really like working with these clients. On the other hand when you look at the whole international alignment thing you find clients and agencies and they are going; I hate this agency and I don't want to work with them. I don't like the people in there and the client don't really give the agency a chance but the agency also hates that and they actually find themselves having to work together and they go; I hate this whole process.

And then what they do is they actually split off below the line activities from the above the line activities. So we can go out and do whatever we like, and then more and more they start to try and fragment it and take out above the line projects and slip it in below the line and it just becomes very messy. I mean that actually; so I'm not for the international alignments and don't think it has done a whole lot of good for actually agencies or clients.

For me, I think it is about we want to work with clients that want to work with us. In order to do that we need to make sure that our creative delivery is the best in the business. I also think that all agencies go through peaks and troughs dips. You know you go through incredibly hard times where you will lose a whole lot of people, but if you can offer them good client service and have strong account managers on your brand that actually get to know the client's business and can actually have some value to add instead of runners. I think all agencies are finding now the same thing, it is really hard to find good account managers these days you know and the BEE has not helped it. I'm not saying BEE is all of the problem . . .

Marí: Yeah [talking together]

Tracey: But it has not helped it, in fact we all have to make the figures. So what we do is we kind of say well we have to have x percentage of figures and then we get that number at all cost. I think you are finding that it is not only the advertising industry with this problem as we are finding younger and younger client brand managers or marketing managers. So, it seems that they are coming straight out

of varsity and where as before, I suppose this is the economic kind of indicators, you had a bigger marketing team so the youngsters had a chance to work underneath somebody to learn the process but now we are finding marketing managers who come and talk to us about marketing 101 which they know.

Marketing 101 might not work in every situation you know. A marketing degree or diploma is actually a degree or diploma to go out there and learn how to market.

Marí: Absolutely

Tracey: It is not for us to dictate to them but often they don't want to actually ask. You see they need to establish a presence, but actually, it is difficult when the agency pushes back and you got to another agency knocking on the door and going: Ah, do you know we would really like your business. In fact all we will invest in you.

Marí: Yes, this is difficult. In one of my previous interviews the executive told me that the average turnover of a marketing manager is now fifteen months at a company.

Tracey: Yeah, it is absolutely true. I have been in advertising a long time. Well, I did advertising for a long time and then I went into branding so I did that at HKLM and being in both domains I think that their business is a lot harder because they are project base, so they are only as good as their last project.

Marí: Yes

Tracey: Where as in terms of the big agencies we traditionally have fees and retainers and all of that and I think that kind of allow you to be a little blasé.

Marí: Hum

Tracey: In terms of the big agencies and let's face it is more difficult to make a big agency agile.

Marí: Hum

Tracey: And adaptable as a small agency.

Marí: Hum

Tracey: Just because it's systems and processes that need to be followed. We need to asks ourselves if we actually work our business model to suit our clients rather than the other way around?

Marí: Do you do you measure client defection at all? Do you track clients defection and say you know we lost so many clients over this period of time and mostly because of?

Tracey: In the agency kind of arena, don't forget that a lot of the time relationships are determined on a contract basis. So you know when the contract comes up, if it is a three year contract or an eighteen month contract or whatever it then goes out to pitch. Branding

agencies has said; we will not pitch on business anymore. You either come to us because we have established our credentials or we will take a brief if you will pay for that brief and if we deliver on that brief then can we have your business, please. And in some ways I think that the big agencies need to do that because it costs a fortune and by the time the big agencies used all their resources and everything that they need for a pitch in terms of the just the time and the money that they spend on pitching... and I mean funny that we are having this discussion this morning we, at the agency, discussed you know what should an agency's greatest defence be and it should be a kind of thing, you know where the client say well actually I am in love with my agency thanks very much I am not interested.

Marí: Yeah

Tracey: And how do you achieve that? That's the challenge on a daily basis from an account management perspective and from a creative perspective. That's tough, actually the only defence that you are going to have out there, because things as I say are getting tighter, is that you know what your client loves the creative and the client loves the account management and actually loves anything about that agency. Also I think, certainly for the younger marketing managers, it's about not terrorising them with what you know . . .

Marí: [Talking together]

Tracey: Agencies are quite good at cracking a whip going "we've been doing this for 20 years and we are so good at this so don't you tell us how to do it". Whereas actually clients need assistance, so if you can give them assistance and make them see the value in what you can do for them, that's the good client relationship. Client – Agency relationship.

Marí: Hum, so you think most of the retention is based around the relationship that you form and then . . .

Tracey: Absolutely

Marí: . . . supporting actions?

Tracey: Absolutely and it's about the larger agencies, I think there is a perception that larger agencies are arrogant and I think there was a period where they were all arrogant. Agencies cannot afford to be arrogant today. It is almost, you know, when you get a client and the client says well I've got two hundred thousand rand to spend and then you go and do this fantastic project for them and you come out and say right that is going to cost you a million rand.

Marí: Hum

Tracey: That is arrogance. Don't do it, you know. Yet, there is an amount of growing client vanity in terms of they want to see real return of investment. Clients want return of investment; what are they getting out? If you are not tying their communication strategy back into their marketing strategy and back into their business strategy, it means that you do not add value. You got to have a really good solid



client services to build that relationship and it is got to be branded that clients got to understand what we are talking about. You know it is no longer just having people saying here is the brief and it is going to cost you whatever, Five thousand rand. It is not like that anymore.

Marí: The one thing that I have also picked up is that it seems like agencies are sort of losing their culture. I mean I remember when I finished my degree the advertising agencies were the bunch of weird people that worked twenty four hours a day and almost had beds in their office and high staff turnover lots of creativity.

Marí: Am I wrong?

Tracey: No, I don't think so. I mean, I think there was a period you know what I think has happened is that I think the advertising industry has lost its magic and I think that in the eighties it was magical but I suppose all the industries go through this, I mean at one stage IT was magic, was the place to be . . .

Marí: That's right

Tracey: So I don't think it is just advertising, I don't think it is typical to advertising but I do think the way of doing business has changed.

Marí: Why . . .

Tracey: I think that is an economic thing and as I said, that has becoming tighter, tighter and depressing. You know, half of the time we don't actually take into account what is happening within a client's structure.

Client's structures change and the personalities change and clients got tighter or more fragmented or whatever it is, depending on what client it is, are you adapting to that client?

For me it is about adaptation to the client, but I'm a client service person

Marí: Yeah

Tracey: And at the same time it is about also giving them great service if creative input it top notch all the time and the service is great, you know I think that where clients will be unwilling to leave

Marí: Yeah,

Tracey: You know everybody wants to be the best, if they are spending money they want to know that they will be the best. That is human nature it is not agency-client culture.

Marí: Yeah, that is human nature. Thank you for this, your experience has certainly added value to me. I now would like to show you what I've done. This is now on a very academical level so I'll show you the practical stuff just now

Tracey: Hum

Marí: I went back to literature and I looked at everything all the components that lead to customer retention and loyalty. [Researcher explains the heuristic model]...

Tracey: I can absolutely relate to this...

Marí: So, in a nutshell this is what the literature brought up. Then I developed this questionnaire

Tracey: I think, sorry can I just give a comment

Marí: Yeah, please do

Tracey: For me it is about all of those things but it is also about the value add. Are you adding value? That's not just about a normal communication it is about, an agency adding value.

Marí: Hum

Tracey: You know, it is not only of value add in terms of are we adding value from an input perspective on a daily basis, but are you adding value in terms of what my competitors are doing; are you adding value in terms of what is happening internationally; trends etc. Because I think agencies can get quite bogged down in the daily grind of. . .

Marí: Yeah, campaign driven

Tracey: Yeah, campaign driven rather than actually seeing the big picture and I think that's where the makeup of the agency is really important.

Marí: I agree with you.

Tracey: Yeah

Marí: It could be very interesting.

Tracey: Yeah, you know what I was thinking was the level of dependency and source of dependency is also quite interesting and more so in terms of the bigger clients because of the structure of the bigger clients. So for instance the financial institutions. Although, that structure with level of dependency and source of dependency then becomes quite difficult to nail down because it cuts through different levels and it's about you know where is the tendency sitting with the agency, or within the client.

Marí: Because this is something that client actually need to consider before leaving.

Tracey: Yeah you know it is the level of dependency, because what happens is you'll have an MD and he's got into a relationship with the agency and they say right, it's almost like it's an international relationship alignment and if your marketing manager say that I hate the people that I'm working with, and the MD is going I'm sorry but you will do it. Where is your level of dependency and what is is the

source of dependence? And I think quite a lot of the time agencies were driven by personal relationships but I think to a lesser extent that is happening today.

Marí: Yes

Tracey: Is not as important anymore so it's not, I don't think, that the thing to know is that you've done a fantastic job and you've actually been in advertising [phone rings] for 10 years which actually mean something [phone rings] exciting because last year and the agency did something for a client you know the story. "Hello, Tracey speaking, hum, can I phone your back, I'm just sitting in a meeting, thanks, bye." I will be interested to know what percentage the historical dependency sits with personal relationships now, because I think you'll see a shift that's quite substantially in the last 2 to 3 years.

Marí: That's one of my questions that I've asked, so I'm going to show you the questionnaire, and please you already given me so do not hesitate to add to this. I have used the following categories to classify agencies. Do you think there is something I should add to that?

Tracey: Are you only going to use international here? What about multinational, I think just to go international, may not be sufficient because, for instance a marketing communication agency that's aligned to four agencies in the UK vs. an Omnicom group which is worldwide unmatched perhaps a better classification could be multi agency conglomerate and multi national.

Marí: Thank you, I will do that.

Tracey: This is going to be an interesting one.

Marí: That question specifically measure the propensity to continue with a relationship prior to possible influence from the remainder of the questionnaire.

Tracey: Hum

Marí: So that's, yeah I think it would be interesting to see.

Tracey: Also going to be interesting

Marí: Yeah, eh the reason for this was if they were on going to ask them about their appointment process, if not, I don't want speculation so then I'll skip the next section

Tracey: No it's fine [turning of pages] I think you going to find that all huge.

Marí: Yeah [talking together]

Tracey: You may be want to break it down; so we are satisfied with the quality of people assigned to the account; because if you want to leave in terms of your service issue with this is your creativity.

Marí: That makes sense, thank you.

Tracey: Quality of account management people vs. level of creativity.

Marí: Yeah

Tracey: This is a really nice question.

Tracey: I think they're all great now I was just thinking while I was actually looking at those about these two companies that you should try and speak to. They're companies that measure the client-agency relationship one is called "Yardstick", and the other is called "Appraise". They've been doing it for a long time and what they do is, they go to the client and they go to the agencies. Very often we split that cost between the client and the agency and then what they do is set criteria between, you know, what the questions are that we actually want answered? We think in terms of a client relationship that is well worth it. Because you know it's a benchmark and what I can do is actually measure it and you can do it every six months or you can do it every year. You know what I'll do all send an e-mail or actually give you the names

Marí: That will be wonderful

Marí: If you look at this type of questionnaire can you see the value for your company in this?

Tracey: Oh absolutely! Hum absolutely you know I would hope that almost on a daily basis you'll be reviewing these sorts of things.

Marí: I suppose the type of person to answer these questions could possibly also influence the type of answer.

Tracey: Absolutely, absolutely and I think that it's a challenge from a client service account management perspective is, you know, how do you find people that are best suited to client service. It is difficult to find these people and funny enough we actually are looking for people from different spheres we actually are not necessarily looking for people anymore in terms of client service from just an advertising background we actually want people with a business background; with a marketing background; with, you know, a manufacturing background because the clients are just so diverse.

Marí: Yeah

Tracey: Also the timing parameters and the budget parameters, so yeah those are the challenges

Marí: Tracey thank you, your input was fantastic.

## INTERVIEW WITH ALAN BOLAN

Mari starts by intruding the study. OK, here we go. I'm busy . . .so that one would hope that data would be fairly easily available. I've actually gone back to the literature and I've considered everything in psychology, economics, and management sciences to see what would affect retention as such. I then divided it into three main areas; one would be the rules and norms of exchange...

Alan: Good

Mari: this is mostly made up from issues underlying contracts that we don't normally consider. [Mari explains the different layers of the heuristic model]... I've actually come up with a questionnaire and this is where I want your input

Alan: Sure

Mari: Gordon Patterson referred me to you and Tracy Roberts.

Alan: Both eh, Gordon I vaguely know. Tracy Roberts, I don't think I've ever met her.

Mari: Well both were very appreciative of your work and told me that you actually look at individual relationships between agencies and their clients and it might be worth just talking to you to see what you come up with.

Alan: I have been 34 years in this industry, 34 years, 17 on the client's side. I was with GlaxoSmithKline, the Tiger Brands group and Procter and Gamble. That's the first 17 years, the next 17 years I was in the advertising side.

Mari: OK

Alan: And I worked for the FCB, Lindsay Smithers in those days.

Mari: OK, yeah!

Alan: and my last two years, I was at JWT, I was managing director yeah

Mari: Wonderful!

Alan: for 7 to 8 years, so it's also quite interesting to me, I think maybe it was a little bit of a background. I don't want to talk too much about myself.

Mari: No, please talk

Alan: I knew I had some health problems and that type of thing, I knew I was going to be getting out at some stage. I had come across agency client appraisals through one of my clients. I attended an international conference in Milan or whatever and they had this thing called Aprais it was being piloted in Australia at that stage. I thought hell, this was damn good. It gets clients and agencies to talk on the same page, same wavelength. I said; this is what I would like to do when I leave the agency. So I sold my shares about 18 months ago, but even prior to that I had been

negotiating with Aprais to pick up the South African rights, so I picked that up and we've been going with this for about a year now, I think it is. I took a couple of months off, travelled etc.

We get clients and agencies to work closer together. It started, you know, a little bit slowly and suddenly it started growing, we are getting a whole lot bigger.

Marí: Wonderful!

Alan: We are dealing with the banks, particularly Standard Bank. They gave me eight relationships, they have given me another eight now, so I got 16 relationships with them, all their business units. We are working with Nampak, we are working with the Edgars group, Glaxo SmithKline.

Marí: Wonderful!

Alan: Kimberly Clark, there are tons of people. So I think; that is sort of the background, out of interest. I'd love to see this questionnaire now.

Marí: I'll quickly show you, this is basically based on the model, but just on a more practical level. I wanted to know who is the main person in the relationship; how long have they been there; the industry in which they are involved; demographics; what kinds of agencies they use; the size of the agency; how they are paid; how often contracts are reviewed.

Alan: OK

Marí: And then, really before I'd get them to think about the relationship or the offer, I wanted to know what, if everything stayed the same, would the chance be that they would continue the relationship with the agency. Then simply if they were involved in the appointment, if yes; answer this section, if no; the next section. So, about the appointment, I wanted to know, who the buying centre is, and who form part of the actual decision. I looked at the procurement process as to what extend did they get information, were there alternatives, who were involved. How important was that specific procurement process? I also looked at things such as current systems in place, directives from head office etc. Then I looked at the black economic empowerment issue, did they consider it.

Now, this section is about satisfaction with the current advertising agencies. So that's basically my approach. I ultimately want to contact advertisers; I've got hold of a database of all companies that spends more than R500 000 on media advertising. This will be an online questionnaire, so this will be presented on a website with the relevant choices.

Alan: Good

Marí: What I want to know once this is finished is what drives that decision to stay. I would then be able to see what they expect, what the levels of satisfaction are and ultimately what drives

retention. So what I want from you at this stage is to tell me; do you think this will work, do you think I should add anything and do you think it is worthwhile to pursue the issue of retention. I hope to apply this to other service industries in general. In general, these things were founded on the theory. I hope that this would be a solid foundation. The problem is however that you get a wonderful article about the role of commitment on retention.

Alan: Yeah

Marí: And I'm asking myself it is great to consider commitment but what about all the other issues that influence retention? It seems that issues are discussed in isolation but I've never seen something that's fully integrated.

Alan: Yeah, obviously what you are doing is, from an academic perspective, you know mine was sort of in a business type of thing. It's very basic; it all breaks down to a relationship at the end of the day. In relationships there are a couple of key things that you should be aware of, particularly when you're on the advertising side when you are an ad agency.

You are virtually at notice to lift up your socks because clients come with their own agenda. I think the other thing is that this industry is very much international connected, because so much of South African business these days are overseas owned, controlled whatever, and then you don't have too much say in terms of what you can do and what you can't do because the international relations dictates that you will use A, B and C. So then you are dealing with a different set of circumstances. Within the A, B and C you can't change the agency, but you can change the people if things are not going well. So there is a whole bunch of issues over there.

Let me show you what we do.

Marí: Please!

Alan: Then I think I'll answer questions about it, if I can. [Alan use the company brochure to illustrate] This is just sort of our stuff. Here we have a nice couple of thoughts, then we talk about better relationships, better work, better aura and I believe that's what drives the business. A couple of quotes, with advertising, I don't know if you've been in the business, I know you lecture.

Marí: I've been at Barlow's Equipment Company for a couple of years, so yeah [laughing] I've been on the B2B side.

Alan: O, B2B, you know I will use two quotes; everybody got tons and tons and tons of quotes, but to me these are the essence, one from the client's side, one from the agency's side. The first helps us to get a clearer view of what we and the agency value in our partnership, it creates an opportunity for improvement, you know a better understanding automatically leads to more pleasant work relationships and better results. Let us talk about relationships. And this is the one from the clients' side, this is to me the best one; Excellent feedback system for progressiveness, constructive

criticism, and seeing two sides of the same coin – the client as well as our own perspective.” I always use the analogy of the coin. A coin has two sides, it is the same issue but I see it one way, you see it a different way. Who is right, who knows?

Marí: It's still a coin.

Alan: It's still a coin, its two sides. The business cards, the one side and the other side. It's the same damn issue. People see it differently. What we do, OK, I think this is an example here which I don't use in my current business association. Whether in terms of feedback, here is the issue, it's the same issue but if you just sort of read, just read that. It talks about the same thing but they perceive it from totally different ways.

Marí: You know the same issues came up.

Alan: Exactly

Marí: Every time

Alan: The same issues talking about the same thing and that is what we try and capture.

Alan: What we do actually, we take the position of an independent third party, I'm doing mostly above the line at the moment and media independence. We started with the bank market research, sponsorships, such things, I am doing PR with the bank as well, but we work all across the world.

It shows you where we work; we actually work across the world without sort of looking at the map. We meet every year. I initially worked alone but now have a partner as we grew and so nicely. The company is an independent third party, and we believe in strengthening relationships, and what we do is to mutual benefit of the agency and client.

We also client driven agency evaluation [talking together]

Marí: Who typically would employ you?

Alan: OK, it's a good point. What we do is sell our services to both parties, we don't want one party to employ us, and we insist that we are paid by both. This has to be 50/50, but we want a contribution from both because they got to buy in. We get total commitment from both.

Marí: And they got to understand the value.

Alan: Yeah, absolutely, OK and what we do is also computer driven. We talk about teamwork that is important, it is all about relationships, you know there's only one winner in rugby. Blue Bulls, I think you're from Pretoria

Marí: Yip!



Alan: Richard Branson, or a master servant type of thing, OK, [paging] or this, you don't want this master set, you want more sort of, I'm saying maybe the guys . . .

Marí: I love to the stuff

Alan: This quote from a message to sort of read it, which I think is quite an interesting one.

Marí: That's wonderful!

Alan: This is how clients rate the agency, and this is how the agency rates the agency, they always rate themselves better. What we use is a graph to show that over time it's going up and over time the gap is narrowing which is exactly what you want. [Paging] OK what we do this in four different stages it takes about six weeks and then we talk about it [paging]. We get both teams together and we agree on all disciplines and performance criteria, we agree on how we are going to go about the process. Who will participate, which benchmarks are available and how will it be measured. We have some questions in our databank, we have about 140 which are similar to the those in your questionnaire. We also put pressure on the agencies to rate clients.

Marí: Wonderful

Alan: We look at the same questions and then we look for the gaps. The gaps tell us just as much as the in fact; I'd say perhaps more than this.

Marí: Do you have benchmark questions per industry?

Alan: Not per industry, per category like it might be financially and insurance, it might be household goods, or Internet

Marí: So you adapt it to each

Alan: Yes and got norms on that as well

Marí: So you already got your benchmark and your norm?

Alan: Yes we do. Let me explain to you our software and process. All information are captured, we program it here; you know your office is your computer wherever you are. The data is then captured by our database setup in London. All activities are monitored and measured. Emails go out to everybody if you ask them to participate in your survey. They get emails and every single one of those questions, the 130, 140 and it's like a cursor that is a live cursor, all you do is click it.

Marí: Typically, who will take part in your survey?

Alan: Our guideline is anyone that deals with the agency on a regular ongoing basis. Some people only answer one or two disciplines based on their roles and department. It's easy to put the questions into a discipline. We also attach a value weighting to people and questions according to importance. Any one of these

questions has got a counter balance in terms of the value and it provides a counter check on what's happening in a relationship. Both parties then rate themselves, normally higher than the other party would. Which, I think doesn't make any difference here. The first time around they normally rate themselves among the 90s. And then they see the evidence and that type of thing and they'll rate themselves down. We work with a spider diagram, it's 0 in the middle, 100 on the outside. And we plot the agency on one spectrum and account and the other end and we look for the big gaps. So it quickly tells us the big perception difference. This is the kind of checking of impartial values all those questions are zapped through in terms of the value and you can see what consciously happens.

Marí: This is actually quite effective

Alan: Yeah, we look for the gaps and, the previous ones and the current one. Then we go through all the questions in terms of where the problem is. We'll say, everything over 20%, and perception gap is a problem and we'll explore why. So that's the actual readings and these are the gaps. [paging] here we you have recaptured the comments. It's all done by the computers.

Marí: Ultimately, so what you would work on, if I look at my model there, is the actual service output, the service satisfaction, and this relationship section here.

Alan: That will all come out, absolutely, that all come out.

Marí: You are very specifically looking at a one to one relationship as defined by both parties.

Alan: Absolutely

Marí: Would it be interesting for example to know if I sent this out to everyone, what their expectations are, so sort of like an overall picture?

Alan: Yeah, what we are doing is slightly different, that's why I almost feel like a marriage counsellor. It's almost the same as my coin analogy it's the same issue, but two perceptions. What we do is trying to find those perceptions and bring it all together through providing some action points. And if you're interested I'll zap through one very quickly, if you want to . . .

Marí: That will be . . .

Alan: . . . on computer . . .

Marí: That will be excellent, you see, what I'm doing, I'm not going to do marriage counselling, I'm going to do group therapy. I'm going to get all of them in and say to them: now, what is it as a South African industry that are good and what's bad and that you expect and what should be in place

Alan: Yeah, yours are in the helicopter, mine's on the ground, as I say you do have to marriage counsellor, I think your analogy is very

good, the group therapy, I think it's a very good one, yeah. So you are going to come up and say what is important to the whole industry

Marí: Yeah

Alan: You know, I think it's a very interesting one because we work more specifically with individual relationships.

Marí: Typically, from an academic perspective, the studies that are being done are one to one and issue per issue, so I'll try to tie it all together.

Alan: It's quite a mammoth thing that you are trying to do. This is big.

Marí: [sigh] you don't want to know.

Alan: It's a biggie. I think you summarized it very, very nicely in terms of what we do.

Marí: this is so nice to see what is out there because that is the section I did not have, that is a section that I [laughing] have to create as well in my overview to say that this is in place because obviously you need to, from the helicopter point of view you actually need to look at everything just to give you an idea.

Alan: OK

Marí: It's [laughing] through a lot of reading, this is still not part of it, so I'll have to incorporate that as well.

Alan: You know, I can be very cynical, in terms of what I say and that sort of thing but if I go back and I've been in this business a long time there was the agency probably about 25 years ago. There was a chap called Daryl Phillips, and he was an absolute mastermind at keeping a touch with the key people in all of the client companies and he would employ a whole bunch of people just to scan, scan publications, print, radio, anything. He used to make phone calls the first 3 hours of the day, just to phone all the clients and mentioned something about his business. He bonded because it's wonderful that you cared for, if you're a client that your account is special they care and think about you 24 hours a day, which they not, of course. There's a lot of smoke in mirrors but the perception is they were doing that now that relationship was unbreakable absolutely unbreakable. There might have been a lot of bullshit happening over here but it's bonded over there and the account is going nowhere. If there were problems over here all it took was one phone call from here to there, it was all sorted out type of thing. People can go on about, I think things has changed over the last 20 years or whatever, I think now it's more results driven and I think there's a lot more action orientated. Who spent two million bucks without knowing what they'll get for it? So I think there's a lot more analysis saying what do we achieve, you know overall, but even what do we achieve by campaign, you know. There's a lot more analysis, which I think helps the research company.

- Marí: Well, one of the things you said at the beginning of our conversation was that it is about a new marketing director coming in and putting you on guard because he wants his own people around him. If you look at the turnover of marketing directors in South Africa we're not talking about building a company, we talking about building a brand, personal brand building and marketing director at the end of the day, so I think relationships are changing to a great extent also the profile of the industry.
- Alan: You gonna get me going on another thing, you're absolutely. You are absolutely right I think the other thing which is BEE, this is where people are put into jobs two quickly and they need some good people around them to push them.
- Marí: I mean, it's actually on both sides, on the agencies side as well the advertiser because one of the other people I spoke to, for example said that if you get onto a plane you don't want to know that the pilot had enough money to buy the plane, you want to know that the pilot can fly the plane. Clients are not racists at the end of the day, they are actually businesses that want to make a profit so they don't care about the colour of the executive, they care about the result. I think it's a slight bump in both ways.
- Alan: It's actually scary, I recall when I started in this industry there was a lot of training, the youngsters coming in were given time to be mentored by senior people and that type of thing. At the moment that's not happening and I think they become tighter, scarcer in terms of resources with less training and I think the quality of the people at the moment really is abysmal. I think also I'm talking you know when I started, it was an interesting industry. You got some bright committed people going into the industry. I think also over the years there's a lot more exciting stuff typically coming through take for example everything that happened in banking. I think also just the change and the whole complexion in terms of a BEE, the forced ratios. I assume running an agency with a BEE charter and the employment equity figures and that type of thing. I don't know if this helped you at all.
- Marí: this helped me tremendously..
- Alan: I wish I could have shown you more but I sign a confidentiality agreement so I'm a little bit restricted in terms of what we can talk about. But what we can do we can draw that down, you pull out every single issue from a client account management, creative work, every single issue and we do it on two things, one is we get comments. I give the verbatim quotes and we put a summary together. At the end there might be, you know, three or four or five points in every single discipline. Then we do an action plan as we see it and indicate the what and by when. We've got three parties, the creative director, media strategy and strategic planning. We are aiming to get these parties to work together and talk to one another. Sometimes when you are dealing with very creative agencies, they may be creative bullies. Because they've got lovely creative ideas or something you find that they do not always include strategy in their output. This sort of thing does happen and it's actually quite scary when that happens.

- Marí: After such a process, after highlighting all these gaps and after developing the action plans do you find that it goes better?
- Alan: Well what we do, in our business rationale is to get in and once you're in it's what we do and if the parties start seeing improvements from every six months to every six months it's difficult for them to get out of. It is almost like a crutch for them, that is when you get renewals and you get referrals etc.
- Another thing that we do get is clients who don't know what the hell to do. They are too junior, they don't know what they want and they put in a brief, it might be a verbal brief or whatever, which is not optimal and then you use creative freedom to come up with something and they say no it's not right and they used a creative to determine what they want to say. From the agency perspective which have delivered and have spend it's money and the creative insight, well they are getting pissed off, etc, demotivated.
- Marí: Do you find that the agencies will move in the same line as the branding agencies, say that we are now going to start charging you for pith?
- Alan: You know in terms of the advertising, what do they call it? The Advertising Communication Association got guidelines in terms of pitches etc. Their guidelines, to everybody, are that you should never approach more than four agencies for a pitch. There's one on at the moment for the South African Post Office. But the Post Office has approached, I think eight agencies to come up with the whole thing strategic, creative, etc. Now, that is going to cost a fortune and you have a one in eight chance of winning. Four of the top agencies in town, is there. Some simply said this is bullshit and said that I'm not going to pitch, we're not interested. The Post Office will say well, it's a free market and if you don't want to pitch you will not be considered. As an agency you always want a shot of going in, but going in on that basis is not good, because a pitch is costing a fortune. I ran a pitch for ABSA when I was with JWB and it cost us a lot of money and we got it at the end of the day but, if we did not, the money goes down the drain. The interesting thing was that the agency that just lost was McCann to make a long story short the Happy, the executive from McCann resigned and became the new marketing director of Absa. Guess what is the first thing he do as the new marketing director, he wants to get rid of JWT because they won the pitch above him. So he has another pitch and just one year later he appoints Jupiter Drawing. That's exactly what I'm saying, with a new marketing director it's a whole new ballgame. It doesn't matter what your chance whenever the new marketing director snap his/her fingers things change and people on the boat change as simple as that.
- Marí: You see I wonder if that reason is not the driving force between this sort of feeling between marketing and advertising people. Because I find that everywhere the advertising people and the marketers just don't see eye to eye.
- Alan: I tell you the downside of that, you know because of that happening over 65 people were fired in one month, 65 livelihoods

in a whim. I've been going all over the show so I don't know if I helped?

Marí: No, you have assisted me on so many levels here.

Alan: If you want to chat on the phone or whatever you got my details.

Marí: Thank you Alan, what I will do once I'm finished with my thesis I'll send you through the executive summary and you

Alan: Mari, something I did not mention that would perhaps be of interest to you. What we also do, we got a separate program which we actually give away for free once they bought this, it's called payment by results PBR. What we do is setup a model for them and we recommend that they pay the agencies a base, but they pay also incentive money. This could even be negative, if they don't hit certain targets, they can take money back. We set up the whole model, one might be the Apraise score,

Marí: I can imagine from the agencies perspective it could be quite a selling point.

Alan: Yeah, no absolutely from the agency perspective you tend to get better people as they put the better people onto the business because there's a nice pot over here, and it's also logistic it sort of it works quite nicely together. It is more proficient and you got to be more professional.

Marí: Yeah I think it's going to be interesting study at the end of the day, it's something we don't do enough in South Africa, and I think it's something we can take further and we can take it into the other areas as well. I mean if you can just look at media research for example how do we measure what is important what is not important and it's just getting the dialogue going.

Alan: Absolutely, so how long is the PhD going to take?

Marí: Well I've written up all the literature, that's done I've written up all the methodology, the questionnaire is hopefully going out in the next week or two and then really it just depends on how quickly people come back to me.

**Annexure 7**  
**Respondent Invite to Partake in the Survey**

Dear [Respondent's First Name]

I know that you are extremely busy, so thank you for opening this e-mail. My name is Mari Jansen van Rensburg and I am also in the marketing profession like you. Being on the academic side of marketing, it is my responsibility to teach future marketing executives relevant and practical marketing strategies and tactics. I really need your help to do this!

In order to stay abreast with the latest industry developments and theory I am currently busy with my Doctorate degree focusing on relationship marketing. This degree is registered at the University of South Africa (Unisa) and done under the supervision of Prof. Peet Venter and Prof. Johan Strydom.

The aim of this study is to improve our understanding of buying behaviour in business markets, especially with regard to professional services. I am interested in the views and insights of individuals or entities employing an advertising agency for advertising services, including below-the-line activity, media planning and buying. An in-depth study of the advertising industry will help to provide a deeper understanding of the specific criteria employed by South African marketers to evaluate and replace advertising agencies.

If you participate in the appointment decision of your company's advertising agency or share the goals and risks arising from this appointment, I would really appreciate your participation in this study. If not, could you kindly forward this invitation to colleagues who fit this profile?

Should you participate you will be able to access the results of this study which would be important for strategic planning and benchmarking. All information will be treated as confidential and company and respondent credentials will be anonymous. The survey could be completed online at <http://www.sbleds.ac.za/sbldbs/SBLSurve.nsf/AMJVR?OpenForm> and should not take more than 15 minutes of your time. The cut off point for participation is **Friday, 20 June 2008**.

Your help is much appreciated and will contribute to the insight of the South African marketing domain.

Kind regards,  
Mari

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## **Annexure 8**

### **Survey Reminder**

Dear [Respondent First Name]

Hope the long weekend treated you well. You may recall that I contacted you earlier this month to participate in a research study concerning buying behaviour in business markets, especially with regard to professional services. As indicated in the preceding e-mail, I am interested in the views and insights of individuals or entities that employ an advertising agency for advertising services. This would help me to gain a deeper understanding of the specific criteria employed by South African marketers to evaluate and replace advertising agencies.

The request for you to participate was guided by your company's media spend and your position within this company. **I am convinced that your participation will contribute to the quality of the data and will provide insights to the South African marketing domain.** Should you participate you will be able to access the results of this study which would be important for strategic planning and benchmarking. All information will be treated as confidential and company and respondent credentials will be anonymous. The survey could be completed online at <http://www.sbleds.ac.za/sblpbs/SBLSurve.nsf/AMJVR?OpenForm> and should not take more than 15 minutes of your time. The cut off point for participation is **Friday, 20 June 2008**. Also find attached the survey in a word document should you experience any difficulties to access the online survey.

If you are unable to participate it would be appreciated if you could reply to this e-mail using one of the following headings to indicate the reason for non-response.

Reason for non-participation	E- Mail TOPIC
We do not employ an advertising agency – all advertising services are done in house.	No agency
We sub-contract our advertising services on an ad-hoc basis to various agencies.	No dedicated agency
We receive directives from an international agency appointed by our international mother company.	An international agency
Sorry, I am unable to assist due to company directives or time limitations.	Decline to participate
Our company already participated in this study.	Completed

**I value your input and response and would like to thank you in advance for your input.**

Kind regards,  
Mari

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**Annexure 9**  
**Questionnaire – MS Word**

## ABOUT YOURSELF

**Which of one of the following job titles best describe your position within the company?**

Advertising Manager	
Brand Manager	
Business Development Manager / Director	
Group Marketing Executive	
General Manager: Sales and Marketing	
Head: Marketing	
Key Account Manager	
Marketing Communication Director	
Marketing Communication Manager	
Marketing Coordinator	
Marketing Director	
Marketing Manager	
Media Manager	
Media Specialist	
Product Manager	
Sales and Marketing Director	
Sales and Marketing Manager	

**How long have you been appointed in this position?**

Less than one year	
1 to 2 years	
2 to 4 years	
More than 4 years	

**In which industry do you work? Please select only one option.**

Agriculture, Hunting, Forestry and Fishing	
Mining and Quarrying	
Manufacturing	
Electricity, Gas and Water Supply	
Construction	
Wholesale and Retail Trade	
Transport, Storage and Communication	
Financial Intermediation, Insurance, Real Estate and Business Services	
Community, Social and Personal Services	
Government	
Education	

## ABOUT YOUR CURRENT ADVERTISING AGENCY

The job of advertising agencies is simply to help you reach your goals by presenting your company to the public in the best possible light. They accomplish this by helping you to fine-tune your message and by laying out an advertising campaign that fits within your budget and marketing plan parameters. In the South African landscape, agencies can either provide a full service or specialist service such as branding and internet marketing services. **Please indicate the type of advertising agency you employ:**

Full service agencies	
Specialist agencies	

Should you have selected specialist agencies, please consider the agency that is responsible for most of your advertising services and therefore consume the bulk of your advertising budget.

**In what year was the current advertising agency appointed?**

**Which of the one of the following best describes the agency?**

Local - small to medium size	
Local – large independent	
Local - multi agency conglomerate	
Multi national	

**Please indicate how the agency is remunerated.**

Pay as you work	%
Retainer	%
Performance base	%
Other (Specify):	%
TOTAL	100%

**How often do you review the agency contract?**

After each campaign	
Monthly	
Quarterly	
Bi-annually	
Annually	
We don't review contracts	
Other (Specify)	

**If the working conditions remain the same, what is the probability that you will continue your relationship with this agency?**

0 – 25%	
26 – 50%	
51 – 75%	
76 – 100%	

**Were you involved with the appointment of the current agency?**

Yes	
No	

## ABOUT THE APPOINTMENT OF THE CURRENT ADVERTISING AGENCY

Thinking back to the appointment of the current advertising agency, please answer the following questions.

**Which of the following role players in your company were involved in the appointment of the agency? Please mark all applicable role players.**

Advertising Manager	
Brand Manager	
Business Development Manager / Director	
Chief Executive Officer (CEO)	
Financial Director/Manager	
Group Marketing Executive	
General Manager: Sales and Marketing	
Head: Marketing	
Key Account Manager	
Marketing Communication Director	
Marketing Communication Manager	
Marketing Co-ordinator	
Marketing Director	
Marketing Manager	
Managing Director	
Media Manager	
Media Specialist	
Operations/Logistics Director/Manager	
Procurement Manager	
Product Manager	
Sales and Marketing Director	
Sales and Marketing Manager	
Other (Specify)	

Thinking about the procurement processes followed at the time of the appointment of the advertising agency you are currently using, how would you rate the extent to which information was obtained and formal analysis conducted? Please indicate, by ticking the most appropriate option. Your response could vary from “1” if you have not obtained any information at all to “4” if you have searched for and/or analysed a great deal of information.

	Not at all	Small extent	Moderate extent	Great extent
To what extent did your company obtain information about the reliability of possible suppliers?	1	2	3	4
To what extent did your company specifically search for information on the capabilities of possible suppliers?	1	2	3	4
To what extent did your company conduct market research on possible suppliers?	1	2	3	4

Please indicate, by ticking the appropriate option, to what extent the evaluation of the agency appointment was guided by previous experience. Your response could vary from “1” if you strongly disagree with the statement to “4” if you strongly agree.

	Strongly disagree	Somewhat Disagree	Somewhat Agree	Strongly Agree
At our company there is an established way of appointing an advertising agency.	1	2	3	4
Responsibility in terms of the appointment of an advertising agency was clearly defined.	1	2	3	4
There were other agencies that would have been suitable for this appointment.	1	2	3	4
Our advertising expenditure was a major financial commitment for our company	1	2	3	4
Compared to other expenditures, high level approval was required to appoint the agency.	1	2	3	4
Our company had much bargaining power in this appointment.	1	2	3	4
The agency we appointed gave us a much better deal than other agencies	1	2	3	4

Which of the following issues were considered when the advertising agency was appointed? Please tick all the relevant options.

Race composition of the agency's ownership	
Race composition of the agency's management	
Employment equity policy of the agency	
Employment equity numbers of the agency	
BEE accreditation	



## ABOUT THE CURRENT ADVERTISING AGENCY

Please indicate, by ticking the most appropriate option, your level of agreement with the statements below, relating to the current advertising agency appointed by your company. Your response could vary from "1" if you strongly disagree with the statement to "4" if you strongly agree.

	Strongly disagree	Somewhat disagree	Somewhat Agree	Strongly Agree
Our company can count on the agency to be sincere.	1	2	3	4
When making important decisions, the agency is concerned about our welfare.	1	2	3	4
We are satisfied with the quality of people assigned to the account.	1	2	3	4
Our advertising agency's personnel thoroughly learned the characteristics of our business.	1	2	3	4
The agency is willing to make recommendations and/or object to our decisions when they believe them wrong.	1	2	3	4
The agency's representatives are frank in dealing with us.	1	2	3	4
Promises made by the agency are reliable.	1	2	3	4
Our advertising agency has tailored its products/services and procedures to meet our specific needs.	1	2	3	4
Our company and advertising agency include each other in formal business planning meetings.	1	2	3	4
Our company and our advertising agency share relevant cost information.	1	2	3	4
Communication between our company and our advertising agency takes place frequently.	1	2	3	4
The basic terms of our relationship have been explicitly verbalized and discussed.	1	2	3	4
The basic terms for sharing information between our company and advertising agency have been explicitly verbalized and discussed.	1	2	3	4
We share proprietary information with each other.	1	2	3	4
Disagreement between our company and advertising agency has considerably increased the productivity of our working relationship.	1	2	3	4
Our advertising agency tends to give us the "benefit of the doubt" in conflict situations.	1	2	3	4
Conflict is seen as a "productive discussion" rather than an "argument".	1	2	3	4
The relationship that the company has with the agency is something we are very committed to.	1	2	3	4
The relationship that the company has with the agency deserves our maximum effort.	1	2	3	4
We stay in the relationship with the agency because we really enjoy working together.	1	2	3	4
We stay in the relationship with the agency because our philosophies match.	1	2	3	4
We stay in the relationship with the agency because there is just too much time, energy, and expense involved in terminating our relationship with the agency.	1	2	3	4
We stay in the relationship with the agency because we are bound by a contract.	1	2	3	4
We stay in the relationship with the agency because the agency has niche expertise not otherwise available.	1	2	3	4
I would renew the contract of this agency if I was given this option today.	1	2	3	4
I like the public image of our advertising agency.	1	2	3	4
I do not care about the brand/company name of our advertising agency.	1	2	3	4

**Please indicate your level of satisfaction with the appointed agency. Your response could vary from “1” if you were very dissatisfied at all to “4” if you were extremely satisfied.**

	<b>Very dissatisfied</b>	<b>Dissatisfied</b>	<b>Satisfied</b>	<b>Extremely satisfied</b>
The professional/technical skills.	1	2	3	4
Quality of advertising service.	1	2	3	4
Level of creativity.	1	2	3	4
Quality of client care.	1	2	3	4
Price.	1	2	3	4
Integrity when advice is offered.	1	2	3	4
Pro-activity in generating new ideas.	1	2	3	4
Correct interpretation of our briefing.	1	2	3	4
Access to a number of creative teams.	1	2	3	4
Stability of key account management.	1	2	3	4
Consistent work processes.	1	2	3	4
Empathy to creative changes	1	2	3	4
Constant information on account status.	1	2	3	4
The compatibility of working styles between the agency and your company.	1	2	3	4
Compliance with budget limitations.	1	2	3	4
Strength in strategic thinking.	1	2	3	4
How will you describe the overall level of satisfaction of your company with the outcomes of this agency in the past year.	1	2	3	4

**On a scale of 1 to 10, how loyal are you to this service provider?**

**In general, should you consider renewing the contract with the current agency, how important is the following?**

	<b>Irrelevant</b>	<b>Unimportant</b>	<b>Important</b>	<b>Critical</b>
The underlying market conditions i.e. the availability of suitable alternatives or contractual obligations.	1	2	3	4
Satisfaction with the current service offering.	1	2	3	4
The working relationship we have with the agency.	1	2	3	4

## SWITCHING ADVERTISING AGENCIES

In the event of switching advertising agencies, please indicate your level of agreement with the statements below, by ticking the appropriate option. Your response could vary from "1" if you strongly disagree with the statement to "4" if you strongly agree.

	Strongly disagree	Somewhat disagree	Somewhat Agree	Strongly Agree
I worry that the service offered by other agencies won't be as good as expected.	1	2	3	4
The company might end up with poor service for a while.	1	2	3	4
Switching will probably involve hidden costs/charges.	1	2	3	4
The company could end up with a bad deal financially.	1	2	3	4
The company cannot afford the time to get the information to fully evaluate other agencies.	1	2	3	4
Comparing the benefits of our advertising agency with the benefits of other agencies takes too much time/effort, even when I have the information.	1	2	3	4
Even after switching, it would take effort to "get up to speed" with the new advertising agency.	1	2	3	4
The company will lose benefits of being a long-term client if we leave our agency.	1	2	3	4
There are a lot of formalities involved in switching to a new advertising agency.	1	2	3	4
Switching to a new agency would involve some up-front costs.	1	2	3	4
I would miss working with the people of our current agency should we switch providers.	1	2	3	4

## APPOINTING A NEW ADVERTISING AGENCY

In the event of appointing a new advertising agency, please indicate how important the following attributes are. Your response could vary from "1" if you deem the attribute as irrelevant to "4" if you deem the attribute to be critical in the selection of an advertising agency.

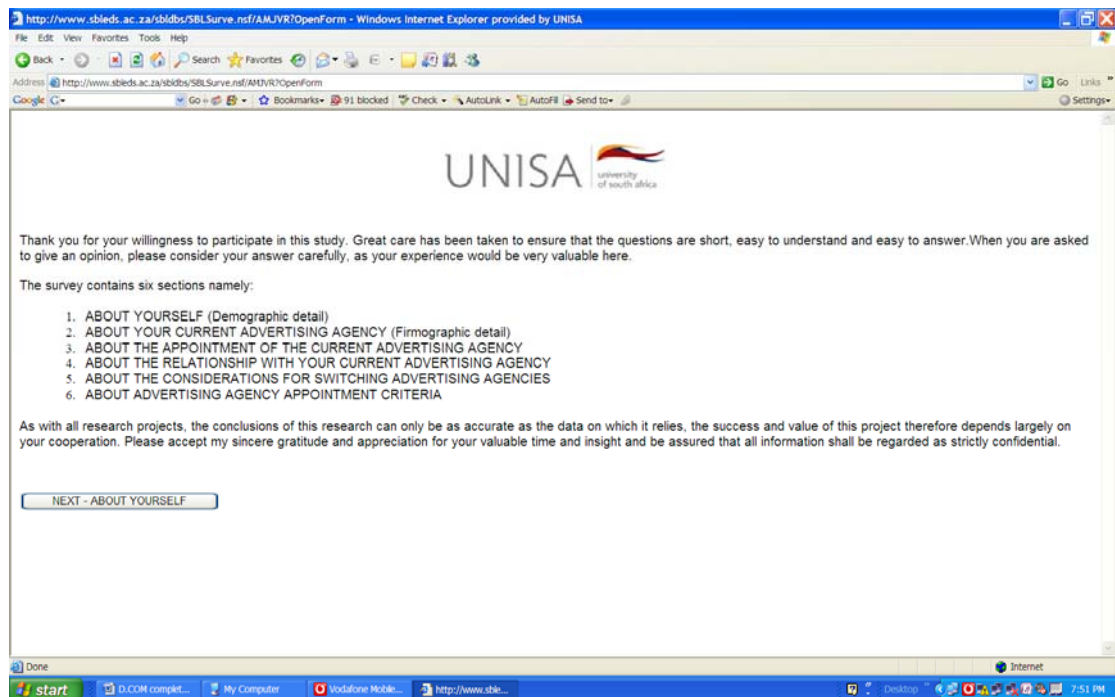
	Irrelevant	Unimportant	Important	Critical
Professional/technical skills.	1	2	3	4
Quality of advertising service.	1	2	3	4
Level of creativity.	1	2	3	4
Level of service during pitching.	1	2	3	4
Previous successful campaign record.	1	2	3	4
Quality of client care.	1	2	3	4
Reputation.	1	2	3	4
Price.	1	2	3	4
Previously held competitive accounts.	1	2	3	4
Geographic proximity.	1	2	3	4
Directives from head office.	1	2	3	4
Compatible personality traits.	1	2	3	4
Black Economic Empowerment.	1	2	3	4
Prescriptions from procurement.	1	2	3	4
Contractual obligations.	1	2	3	4
The agency's brand name.	1	2	3	4
History of involvement between your company and the agency.	1	2	3	4
Previous professional relationships between key individuals.	1	2	3	4

Based on your overall experience, to what extent do you expect advertising agencies (in general) to offer the following services. Your response could vary from "1" if you do not expect the service at all to "4" if you expect agencies to comply to a great extent.

	Not at all	Small extent	Moderate extent	Great Extent
Show Integrity when advice is offered.	1	2	3	4
Be pro-active in generating new ideas.	1	2	3	4
Have correct interpretation of briefings.	1	2	3	4
Offer access to a number of creative teams.	1	2	3	4
Have stability of key account management.	1	2	3	4
Show consistency with regards to work processes.	1	2	3	4
Have empathy to creative changes.	1	2	3	4
Provide constant information on account status.	1	2	3	4
Display strength in strategic thinking.	1	2	3	4

**Annexure 10**  
**Internet Mediated Questionnaire**

# Screen 1



A screenshot of a web browser window displaying the introduction to a survey. The browser is Windows Internet Explorer, showing the address bar with the URL <http://www.sbls.ac.za/sbls/SBLSurvey.nsf/AMUVR?OpenForm>. The page features the UNISA logo at the top. The main text expresses gratitude for participation and lists six survey sections. A 'NEXT' button is at the bottom.

Thank you for your willingness to participate in this study. Great care has been taken to ensure that the questions are short, easy to understand and easy to answer. When you are asked to give an opinion, please consider your answer carefully, as your experience would be very valuable here.

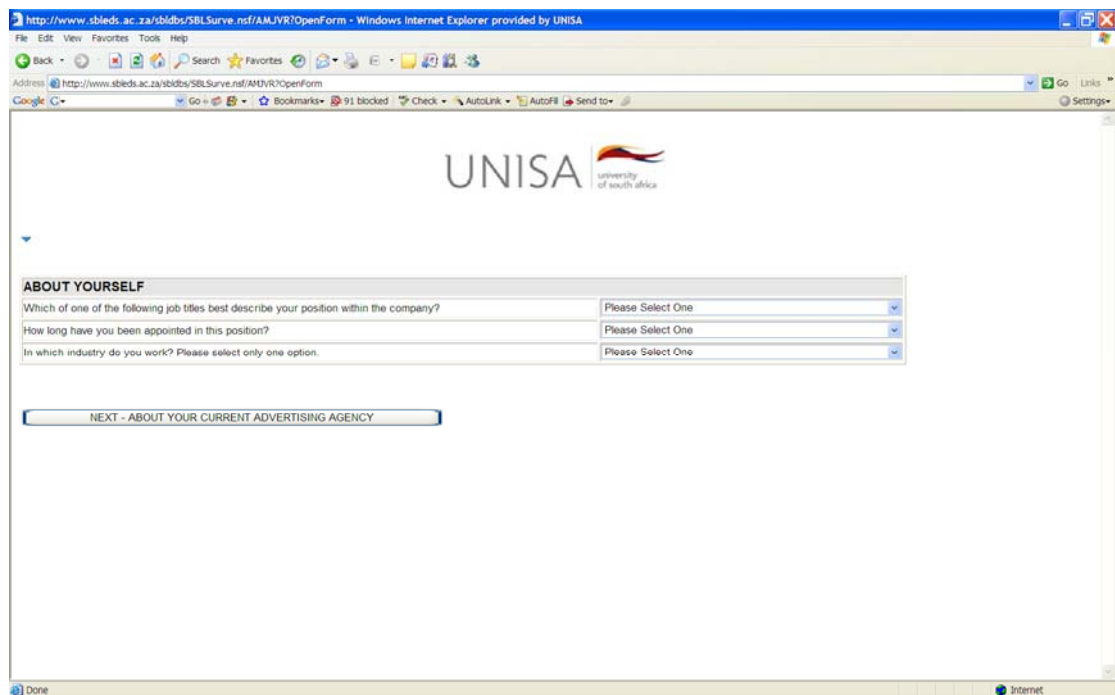
The survey contains six sections namely:

1. ABOUT YOURSELF (Demographic detail)
2. ABOUT YOUR CURRENT ADVERTISING AGENCY (Firmographic detail)
3. ABOUT THE APPOINTMENT OF THE CURRENT ADVERTISING AGENCY
4. ABOUT THE RELATIONSHIP WITH YOUR CURRENT ADVERTISING AGENCY
5. ABOUT THE CONSIDERATIONS FOR SWITCHING ADVERTISING AGENCIES
6. ABOUT ADVERTISING AGENCY APPOINTMENT CRITERIA

As with all research projects, the conclusions of this research can only be as accurate as the data on which it relies, the success and value of this project therefore depends largely on your cooperation. Please accept my sincere gratitude and appreciation for your valuable time and insight and be assured that all information shall be regarded as strictly confidential.

[NEXT - ABOUT YOURSELF](#)

# Screen 2



A screenshot of the second screen of the survey, titled 'ABOUT YOURSELF'. It contains three questions, each with a dropdown menu for the answer. A 'NEXT' button is located at the bottom of the section.

**ABOUT YOURSELF**

Which of one of the following job titles best describe your position within the company? Please Select One

How long have you been appointed in this position? Please Select One

In which industry do you work? Please select only one option. Please Select One

[NEXT - ABOUT YOUR CURRENT ADVERTISING AGENCY](#)

## Screen 3

http://www.sbls.ac.za/sbls/SBLSurve.nsf/AMJVR?OpenForm - Windows Internet Explorer provided by UNISA

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Address http://www.sbls.ac.za/sbls/SBLSurve.nsf/AMJVR?OpenForm

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The job of advertising agencies is simply to help you reach your goals by presenting your company to the public in the best possible light. They accomplish this by helping you to fine-tune your message and by laying out an advertising campaign that fits within your budget and marketing plan parameters. In the South African landscape, agencies can either provide a full service or specialist service such as branding and internet marketing services.

**ABOUT YOUR CURRENT ADVERTISING AGENCY**

Please indicate the type of advertising agency you employ:

☐ Full Service Agencies  
☐ Specialist Agencies

Should you have selected specialist agencies, please consider the agency that is responsible for most of your advertising services and therefore consume the bulk of your advertising budget.

In what year was the current advertising agency appointed?

Which of the one of the following best describes the agency?

☐ Local - small to medium size  
☐ Local - large independent  
☐ Local - multi agency conglomerate  
☐ Multi national

Please indicate how the agency is remunerated. (Please indicate in percentage, the sum of which should be equal to 100 %)

Pay as you work

Retainer

Performance base

Other (Please specify)

How often do you review the agency contract?  
In the event that the list does not reflect your choice, use the area below to "Specify Other"

Please Select One

If the working conditions remain the same, what is the probability that you will continue your relationship with this agency?

☐ 0 - 25%  
☐ 26 - 50%  
☐ 51 - 75%  
☐ 76 - 100%

Were you involved with the appointment of the current agency?

☐ Yes  
☐ No

**NEXT - ABOUT THE APPOINTMENT OF THE CURRENT ADVERTISING AGENCY**

Done Internet

## Screen 4

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Address http://www.sbls.ac.za/sbls/SBLSurve.nsf/AMJVR?OpenForm

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Thinking back to the appointment of the current advertising agency, please answer the following questions.

**ABOUT THE APPOINTMENT OF THE CURRENT ADVERTISING AGENCY**

Which of the following role players in your company were involved in the appointment of the agency?  
Please mark all applicable role players.  
(Use CTRL key for multiple choices)

Please Select All applicable role players  
Advertising Manager  
Brand Manager  
Business Development Manager / Director  
Chief Executive Officer (CEO)  
Financial Director/Manager

In the event that the above list does not reflect your choice, use the area to the right to "Specify Other"

Which of the following issues were considered when the advertising agency was appointed?  
Please tick all the relevant options.  
(Use CTRL key for multiple choices)

Please Select All relevant Options  
Race composition of the agency's ownership  
Race composition of the agency's management  
Employment equity policy of the agency

Thinking about the procurement processes followed at the time of the appointment of the advertising agency you are currently using, how would you rate the extent to which information was obtained and formal analysis conducted? Please indicate, by ticking the most appropriate option. Your response could vary from "1" if you have not obtained any information at all to "4" if you have searched for and/or analysed a great deal of information.

**ABOUT THE APPOINTMENT OF THE CURRENT ADVERTISING AGENCY**

	Not at all	Small extent	Moderate extent	Great extent
To what extent did your company obtain information about the reliability of possible suppliers?	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
To what extent did your company specifically search for information on the capabilities of possible suppliers?	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
To what extent did your company conduct market research on possible suppliers?	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4

Please indicate, by ticking the appropriate option, to what extent the evaluation of the agency appointment was guided by previous experience. Your response could vary from "1" if you strongly disagree with the statement to "4" if you strongly agree.

Done Internet

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## Screen 4 continue

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In the event that the above list does not reflect your choice, use the area to the right to "Specify Other"

Which of the following issues were considered when the advertising agency was appointed?  
(Use CTRL key for multiple choices)

Please Select All relevant Options

- Race composition of the agency's ownership
- Race composition of the agency's management
- Employment equity policy of the agency

Thinking about the procurement processes followed at the time of the appointment of the advertising agency you are currently using, how would you rate the extent to which information was obtained and formal analysis conducted? Please indicate, by ticking the most appropriate option. Your response could vary from "1" if you have not obtained any information at all to "4" if you have searched for and/or analysed a great deal of information.

ABOUT THE APPOINTMENT OF THE CURRENT ADVERTISING AGENCY	Not at all	Small extent	Moderate extent	Great extent
To what extent did your company obtain information about the reliability of possible suppliers?	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
To what extent did your company specifically search for information on the capabilities of possible suppliers?	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
To what extent did your company conduct market research on possible suppliers?	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4

Please indicate, by ticking the appropriate option, to what extent the evaluation of the agency appointment was guided by previous experience. Your response could vary from "1" if you strongly disagree with the statement to "4" if you strongly agree.

ABOUT THE APPOINTMENT OF THE CURRENT ADVERTISING AGENCY	Strongly disagree	Somewhat disagree	Somewhat Agree	Strongly Agree
At our company there is an established way of appointing an advertising agency.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Responsibility in terms of the appointment of an advertising agency was clearly defined.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
There were other agencies that would have been suitable for this appointment.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Our advertising expenditure was a major financial commitment for our company.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Compared to other expenditures, high level approval was required to appoint the agency.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Our company had much bargaining power in this appointment.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The agency we appointed gave us a much better deal than other agencies	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4

NEXT- ABOUT THE RELATIONSHIP WITH THE CURRENT ADVERTISING AGENCY

Done

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## Screen 5

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Please indicate, by ticking the most appropriate option, your level of agreement with the statements below, relating to the current advertising agency appointed by your company. Your response could vary from "1" if you strongly disagree with the statement to "4" if you strongly agree.

ABOUT THE RELATIONSHIP WITH THE CURRENT AGENCY	Strongly disagree	Somewhat disagree	Somewhat Agree	Strongly Agree
Our company can count on the agency to be sincere	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
When making important decisions, the agency is concerned about our welfare	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
We are satisfied with the quality of people assigned to the account	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Our advertising agency's personnel thoroughly learned the characteristics of our business	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The agency is willing to make recommendations and/or object to our decisions when they believe them wrong	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The agency's representatives are frank in dealing with our company	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Promises made by the agency are reliable	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Our advertising agency has tailored its products/services and procedures to meet our specific needs	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Our company and advertising agency include each other in formal business planning meetings	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Our company and our advertising agency share relevant cost information	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Communication between our company and our advertising agency takes place frequently	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The basic terms of our relationship have been explicitly verbalized and discussed	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The basic terms for sharing information between our company and advertising agency have been explicitly verbalized and discussed	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
We share proprietary information with each other	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Disagreement between our company and advertising agency has considerably increased the productivity of our working relationship	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Our advertising agency tends to give us the "benefit of the doubt" in conflict situations	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Conflict is seen as a "productive discussion" rather than an "argument"	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4

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## Screen 5 continue

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The relationship that the company has with the agency is something we are very committed to. ☐ 1 ☐ 2 ☐ 3 ☐ 4

The relationship that the company has with the agency deserves our maximum effort. ☐ 1 ☐ 2 ☐ 3 ☐ 4

We stay in the relationship with the agency because we really enjoy working together. ☐ 1 ☐ 2 ☐ 3 ☐ 4

We stay in the relationship with the agency because our philosophies match. ☐ 1 ☐ 2 ☐ 3 ☐ 4

We stay in the relationship with the agency because there is just too much time, energy, and expense involved in terminating our relationship with the agency. ☐ 1 ☐ 2 ☐ 3 ☐ 4

We stay in the relationship with the agency because we are bound by a contract. ☐ 1 ☐ 2 ☐ 3 ☐ 4

We stay in the relationship with the agency because the agency has niche expertise not otherwise available. ☐ 1 ☐ 2 ☐ 3 ☐ 4

I would renew the contract of this agency if I was given this option today. ☐ 1 ☐ 2 ☐ 3 ☐ 4

I like the public image of our advertising agency. ☐ 1 ☐ 2 ☐ 3 ☐ 4

I do not care about the brand/company name of our advertising agency. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Please indicate your level of satisfaction with the appointed agency. Your response could vary from "1" if you were very dissatisfied to "4" if you were extremely satisfied.

ABOUT THE RELATIONSHIP WITH THE CURRENT AGENCY	Very dissatisfied	Dissatisfied	Satisfied	Extremely satisfied
The professional/technical skills	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Quality of advertising service	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Level of creativity	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Quality of client care	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Price	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Integrity when advice is offered	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Pro-activity in generating new ideas	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Correct interpretation of our briefing	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Access to a number of creative teams	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Stability of key account management	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Consistent work processes	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Empathy to creative changes	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4

Done

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Quality of advertising service. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Level of creativity. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Quality of client care. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Price. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Integrity when advice is offered. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Pro-activity in generating new ideas. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Correct interpretation of our briefing. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Access to a number of creative teams. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Stability of key account management. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Consistent work processes. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Empathy to creative changes. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Constant information on account status. ☐ 1 ☐ 2 ☐ 3 ☐ 4

The compatibility of working styles between the agency and your company. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Compliance with budget limitations. ☐ 1 ☐ 2 ☐ 3 ☐ 4

Strength in strategic thinking. ☐ 1 ☐ 2 ☐ 3 ☐ 4

How well you describe the overall level of satisfaction of your company with the outcomes of this agency in the past year. ☐ 1 ☐ 2 ☐ 3 ☐ 4

On a scale of 1 to 10, how loyal are you to this service provider?

In general, should you consider renewing the contract with the current agency, how important is the following?

ABOUT THE RELATIONSHIP WITH THE CURRENT AGENCY	Irrelevant	Unimportant	Important	Critical
The underlying market conditions i.e. the availability of suitable alternatives or contractual obligations.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Satisfaction with the current service offering.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The working relationship we have with the agency.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4

NEXT - ABOUT THE CONSIDERATIONS FOR SWITCHING ADVERTISING AGENCIES

Done

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## Screen 6

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In the event of switching advertising agencies, please indicate your level of agreement with the statements below, by ticking the appropriate option. Your response could vary from "1" if you strongly disagree with the statement to "4" if you strongly agree.

ABOUT SWITCHING CONSIDERATIONS FOR ADVERTISING AGENCIES	Strongly disagree	Somewhat disagree	Somewhat Agree	Strongly Agree
I worry that the service offered by other agencies won't be as good as expected.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The company might end up with poor service for a while.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Switching will probably involve hidden costs/charges.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The company could end up with a bad deal financially.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The company cannot afford the time to get the information to fully evaluate other agencies.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Comparing the benefits of our advertising agency with the benefits of other agencies takes too much time/effort, even when I have the information.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Even after switching, it would take effort to 'get up to speed' with the new advertising agency.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The company will lose benefits of being a long-term client if we leave our agency.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
There are a lot of formalities involved in switching to a new advertising agency.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Switching to a new agency would involve some up-front costs.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
I would miss working with the people of our current agency should we switch providers.	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4

NEXT - ABOUT ADVERTISING AGENCY APPOINTMENT CRITERIA

Done

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## Screen 7

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In the event of appointing a new advertising agency, please indicate how important the following attributes are. Your response could vary from "1" if you deem the attribute as irrelevant to "4" if you deem the attribute to be critical in the selection of an advertising agency.

ABOUT APPOINTING A NEW ADVERTISING AGENCY	Irrelevant	Unimportant	Important	Critical
Professional/technical skills	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Quality of advertising service	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Level of creativity	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Level of service during pitching	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Previous successful campaign record	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Quality of client care	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Reputation	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Price	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Previously held competitive accounts	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Geographic proximity	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Directives from head office	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Compatible personality traits	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Black Economic Empowerment	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Prescriptions from procurement	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Contractual obligations	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The agency's brand name	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
History of involvement between your company and the agency	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4

Done

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## Screen 7 continue

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Directives from head office	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Compatible personality traits	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Black Economic Empowerment	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Prescriptions from procurement	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Contractual obligations	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
The agency's brand name	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
History of involvement between your company and the agency	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Previous professional relationships between key individuals	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4

Based on your overall experience, to what extent do you expect advertising agencies (in general) to offer the following services. Your response could vary from "1" if you do not expect the service at all to "4" if you expect agencies to comply to a great extent.

ABOUT APPOINTING A NEW ADVERTISING AGENCY	Not at all	Small extent	Moderate extent	Great extent
Show integrity when advice is offered	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Be pro-active in generating new ideas	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Have correct interpretation of briefings	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Offer access to a number of creative teams	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Have stability of key account management	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Show consistency with regards to work processes	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Have empathy to creative changes	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Provide constant information on account status	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4
Display strength in strategic thinking	<input type="radio"/> 1	<input type="radio"/> 2	<input type="radio"/> 3	<input type="radio"/> 4

Should you require access to the research findings, please provide us with your email address

Done

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